NINTH
ANNUAL REPORT
TO MARCH 31, 1982

Alberta

DEPARTMENT OF FEDERAL
AND INTERGOVERNMENTAL AFFAIRS

TO THE HONOURABLE GERARD AMERONGEN
Speaker of the Legislative Assembly
of the Province of Alberta

SIR:

I have the honour herewith, for the information of the Legislature of Alberta, to present the Ninth Annual Report of the Department of Federal and Intergovernmental Affairs, covering the period from April 1, 1981 to March 31, 1982.

I have the honour to be, Sir,

Your obedient Servant,

Dick Johnston
Minister of Federal and
Intergovernmental Affairs

Edmonton
October, 1982

TO THE HONOURABLE DICK JOHNSTON
Minister of the Department of Federal
and Intergovernmental Affairs

SIR:

I have the honour to submit herewith the Ninth Annual Report of the Department of Federal and Intergovernmental Affairs.

I have the honour to be, Sir,

Yours truly,

J. Peter Meekison
Deputy Minister of Federal
and Intergovernmental Affairs

Edmonton
October, 1982

NINTH ANNUAL REPORT

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I THE DEPARTMENT OF FEDERAL AND INTERGOVERNMENTAL AFFAIRS

A. BACKGROUND

The 1981-82 reporting period witnessed the resolution of two key issues which had caused considerable tension in Canada in previous years. An historic agreement was reached among the federal government and nine provincial governments, paving the way for the patriation of Canada's Constitution. Alberta and the federal government also successfully concluded negotiations in the area of energy pricing and related matters and subsequently signed a five year Energy Agreement.

The resolution of the constitution and energy issues were major examples of federal-provincial cooperation. At the same time, there were significant issues where cooperation was not evident, for example, in the very important area of federal-provincial fiscal arrangements, where the federal government unilaterally imposed major modifications on the provinces.

B. THE DEPARTMENT

The basic objectives of the Department of Federal and Intergovernmental Affairs are to represent Alberta's interests as an equal partner in Confederation and to ensure that the Province's relations with the Government of Canada, governments of other provinces and the governments of foreign countries or states are conducted in a coordinated and consistent manner. The **Department of Federal and Intergovernmental Affairs Act, 1972,** established the terms of reference for the Minister and the Department. The responsibilities outlined in the Act may be summarized as follows:

— coordination of the Alberta Government's activities in the intergovernmental sphere to ensure that they are consistent with the overall objectives of the Alberta Government;
— conducting an ongoing review of the policies, programs, and activities of other governments which may affect Alberta;
— signing all intergovernmental agreements.

While the administration of programs and, in most cases, the articulation of specific policy positions remains with other departments of the provincial government, it is the responsibility of the Department of Federal and Intergovernmental Affairs to ensure coordination, consistency and continuity in government policies when other governments are involved.

C. ORGANIZATION AND OPERATION

Throughout the reporting period, the operation of the Department remained under the direction of Dr. J. Peter Meekison, the Deputy Minister of the Department. The operation of the Department continued to be divided into four functional categories. (See Appendix 1 - Organization Chart of the Department.) Within these four divisions, all areas of provincial involvement in intergovernmental affairs are provided for. They are:

— Resources and Economic Development
— Social and Cultural Affairs
— Research and Planning
— International

The **Resources and Economic Development** Division has responsibility for a wide range of areas relating to natural resource ownership and development, energy, economic development, transportation, agriculture, communications, environment, consumer and corporate affairs, tourism and small business, and regional economic development. In addition, the Division maintains important links with the Yukon and Northwest Territories. Energy and related matters occupied a major portion of the Division's time during fiscal 1981-82. A new and expanded Nutritive Processing Subsidiary Agreement with the federal Department of Regional Economic Expansion was concluded and discussions towards a federal-provincial forestry agreement and extension of the Alberta North agreement were pursued. The Division chairs the Interdepartmental Committee on Communications which concentrated on federal-provincial jurisdictional questions arising from the emerging importance of non-broadcast telecommunication services such as Pay-TV. The intergovernmental aspects of Alberta activities with respect to water resources, particularly the Mackenzie River Basin Committee and the Slave River Hydro Feasibility Study were also handled by the Division. The Division monitored and assessed the impact of federal economic policies on the Province and acted as a resource to other provincial departments in formulating an Alberta position on federal initiatives and policy statements in such areas as agriculture, forestry, petrochemicals, and transportation.

The **Social and Cultural Affairs** Division has responsibility for a number of issue areas including manpower, immigration, Natives, education, justice, health, social services, housing and public works, and municipal affairs. It works in conjunction with other provincial departments to assess federal proposals and develop a provincial position on intergovernmental issues. The Division was active during the 1981-82 fiscal year in coordinating preparations for planned plebiscites in Banff and Jasper to determine whether the residents wished to have local government. In the same period, RCMP contract negotiations were successfully concluded and the two-year Western Health Manpower Training Study was completed. The Division also participated in meetings and discussions on a number of other significant issues such as the manpower training agreements, the Alsands project, the federal Wood Buffalo National Park plan, Native matters, and lotteries.

The **Research and Planning** Division has responsibility for providing an ongoing assessment of federal-provincial and interprovincial relations and the institutions of federalism. In providing this assessment, the Division examines Alberta's position within Confederation and the challenges facing the federal system as a whole. Specific responsibilities include the areas of constitutional affairs, national unity, federal-provincial fiscal and economic relations, institutions relating to federalism, reduction of federal-provincial duplication of programs and services, and special projects. The Division is also responsible for coordinating the preparation of briefing materials and strategy recommendations for the Annual Premiers' Conference, the Western Premiers' Conference, and for First Ministers' Conferences. During the 1981-82 reporting period, the Division's activities centered on three major areas of intergovernmental activity - the Constitution, the First Ministers' Conference on the Economy, and the renegotiation of federal-provincial fiscal arrangements. Work in the area of the Constitution included the development of a joint eight-province position in opposition to the federal government's unilateral constitutional proposals, an analysis of the Supreme Court of Canada decision on the proposed federal Resolution, and preparations for the First Ministers' Conference on the Constitution in November, 1981. The Division worked, in conjunction with Treasury, in assessing the federal proposals on fiscal arrangements and in developing Alberta positions on this matter. Research and Planning also coordinated the briefing preparations for the First Ministers' Conference on the Economy held in February, 1982.

The **International** Division has responsibility for monitoring Alberta's international initiatives and for reviewing provincial policies, programs and activities in relation to Canadian foreign policy and foreign policy of other countries. Alberta's activities in the international arena are concentrated primarily in the areas of trade, foreign investment, energy and foreign aid although there is significant interest in other areas, such as culture, science and technology, and education. The Division is responsible for the coordination of international visits, both incoming and outgoing, and of Alberta's overseas offices. (See Appendix I for organization chart of out-of province offices.)

During 1981-82, the Division paid particular attention to Canada-United States relations, trade policy issues and Alberta's growing relationship with China and Japan. The Division acts as the chief Alberta contact for the Department of External Affairs in Ottawa. Through this contact, federal and provincial officials work together on a wide range of subjects in the international sphere.

The **Office of the Provincial Pipeline Coordinator,** which had been created under the auspices of the Department of Federal and Intergovernmental Affairs in 1980, continued to act as the "single window" for Alberta's involvement with the Alaska Highway Gas Pipeline Project. During the 1981-82 fiscal year the staff of this Office worked in cooperation with the Northern Pipeline Agency and provincial departments to coordinate the provincial response to the construction of the project in such areas as environmental surveillance and regulatory affairs. The Provincial Pipeline Coordinator also represents the Province at the quarterly meetings of the Federal/Provincial/Territorial Consultative Council on the pipeline and at other intergovernmental meetings on the project.

II. ALBERTA GOVERNMENT OFFICES IN CANADA

A. OTTAWA OFFICE

The Department of Federal and Intergovernmental Affairs assumed responsibility for the Ottawa Office in 1972. The Office serves as a "listening post" and communications link between the Alberta Government and the federal government. The Ottawa Office does not replace direct communications between the two governments, but rather complements and speeds up such communications.

During the 1981-82 period, the staff monitored and reported on matters concerning the Constitution, energy, and economic developments as they affected the Province of Alberta. Assistance was provided in developing administrative arrangements and briefing material for the signing of the Constitutional Accord in April of 1981. Administrative and information services were provided for the First Ministers' Conference on the Constitution held in Ottawa in November, 1981, as well as the First Ministers' Conference on the Economy in February, 1982.

Energy developments continued to involve the Ottawa Office, and assistance was provided to the Department of Energy and Natural Resources in the form of monitoring proceedings in the House of Commons and committee hearings. The Ottawa Office looked after administrative details surrounding the signing of the Canada/Alberta Energy Agreement in September of 1981.

The staff members of the Office met with delegations visiting Ottawa who were unable to visit the Province of Alberta, providing them with background information and briefing material on the Province. The Ottawa Office also assisted in the preparations for the visit to Canada of the Governor of the Province of Heilongjiang, People's Republic of China, and hosted a reception in honour of the Governor and his party.

The Office, located at Suite 1110, 90 Sparks Street, provides travel and manpower information to many interested individuals and associations. Working areas and meeting facilities are available for the use of visiting Alberta ministers and officials.

B. TORONTO OFFICE

The Alberta Government office in Toronto was opened in February 1975 primarily to service the Province's manpower interests in Eastern Canada. It is headed by a Director who is assisted by a Manpower Mobility Officer from the Department of Advanced Education and Manpower.

The main function of the Toronto Office continues to be directed toward fulfilling Alberta's manpower requirements. The Office obtains, from federal and provincial governments, current labour market information, particularly relating to the availability and locations of skilled and professional workers required by Alberta employers. The staff of the Office assists Alberta employers in recruiting manpower and provides the services and facilities necessary during the interview process.

In addition, the volume of inquiries received by the Toronto Office related to tourism, business development, investment, government policies and requests for general information has increased in recent years and now represents about one-half of the office workload. Counselling is provided to both individuals and the head offices of companies seeking information on Alberta relating to job opportunities, housing, health care, working conditions and labour.

The Office works closely with the Departments of Economic Development and Tourism and Small Business, as well as the Industrial Development Departments of the cities and towns being considered as possible location sites for investment.

The Toronto Office is located at Suite 410, 65 Queen Street West, Toronto.

III. CONFERENCE ACTIVITY

In a federal system such as Canada's, the conference format allows governments to discuss their mutual problems, coordinate policies, resolve conflicts and exchange information. The conference format has evolved primarily since the end of the Second World War, and has been an important and recognized mechanism for making adjustments within the federal system.

In 1981 the Department continued to document the Province's participation in various meetings and conferences at the first ministers, ministers, and deputy ministerial levels. Alberta participated in a total of one hundred and seventy-three federal-provincial and interprovincial meetings and conferences during the year. (There are also numerous meetings of officials below the Deputy Ministerial level which have not been included in these statistics.)

It should be noted that the criteria of what constitutes a meeting or conference is open to interpretation. Three basic criteria are followed in the reporting process:

1. Only formal contacts between government officials are recorded.
2. Meetings or conferences consist of two or more persons officially representing their respective governments.
3. "Formal" contacts are often established by a prior exchange of correspondence and the setting of an agenda.

In reporting on conference activity, the Department of Federal and Intergovernmental Affairs is dependent, to a certain extent, upon information supplied by different departments within the federal government and other Alberta departments, since the Department is not represented at all meetings and conferences in which Alberta is a participant.

A. FEDERAL-PROVINCIAL ACTIVITY

The following tables show federal-provincial meetings and conferences held during the calendar year of 1981 and reflect all meetings at the first ministers, ministers, and deputy ministerial levels in which Alberta was a participant.

TABLE I classifies these meetings into three categories: bilateral (meetings between representatives of the Government of Alberta and representatives of the federal government); regional (meetings between representatives of the Government of Alberta and representatives of one or more other "western" provinces, meeting in conjunction with the federal government); and multilateral (meetings between representatives of the Government of Alberta and representatives from all or most of the other provinces and representatives of the federal government).

According to this classification, of the meetings and conferences held in 1981, twenty-six (26) were bilateral, three (3) were regional and fifty-five (55) were multilateral.

TABLE I

Frequency of Federal-Provincial Meetings and Conferences According to Category — Alberta Participation, 1981

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Bilateral	0	1	1	3	1	4	3	4	4	0	0	5	26
Regional	0	0	1	0	0	1	0	0	1	0	0	0	3
Multilateral	3	4	3	5	4	9	2	1	6	6	4	8	55
TOTAL	3	5	5	8	5	14	5	5	11	6	4	13	84

TABLE II further breaks down the meetings and conferences at which Alberta was a participant according to the level of representation. Three levels of representation are isolated: first ministerial, ministerial and deputy ministerial.

Using this classification there were two first ministerial meetings, forty-seven ministerial meetings and thirty-five deputy ministerial meetings.

TABLE II

Frequency of Federal-Provincial Meetings and Conferences According to Category and Level of Representation — Alberta Participation, 1981

	Bilateral	Regional	Multilateral	Total
First Ministerial	1	0	1	2
Ministerial	17	0	30	47
Deputy Ministerial	8	3	24	35
TOTAL	26	3	55	84

TABLES III AND IV present the number of federal-provincial conferences by level of representation broken down into a cross-reference of nineteen areas of governmental activity. As such, these tables highlight those policy areas which required the most attention in terms of meetings and conferences, and which level of representation was required for consideration of the subject. The figures illustrate the diverse and complex nature of intergovernmental affairs. Discussions ranged from the consideration of broad policy objectives and issues at the ministerial level to the consideration of much more technical matters at the deputy ministerial level. The figures represent meetings which were convened to focus on a specific subject or problem which had arisen, as well as meetings of committees which meet on a continuing basis and have become more permanent intergovernmental mechanisms.

TABLE III

Frequency of Federal-Provincial Meetings and Conferences According to Category and Area of Government Activity — Alberta Participation, 1981

	Bilateral	Regional	Multilateral	Total
Constitution	0	0	1	1
General Government	0	0	1	1
Finance	3	0	6	9
Agriculture	2	0	4	6
Transportation	1	0	3	4
Education	1	0	2	3
Energy and Resources	11	3	2	16
Environment	0	0	2	2
Manpower-Labour	2	0	3	5
Statistics	0	0	0	0
Welfare	0	0	1	1
Health	0	0	2	2
Industry and Trade	2	0	2	4
Urban Affairs	1	0	1	2
Justice and Laws	2	0	12	14
Consumer Affairs	0	0	1	1
Communications	0	0	3	3
Native Affairs	1	0	1	2
Miscellaneous	0	0	8	8
TOTAL	26	3	55	84

TABLE IV

Frequency of Federal-Provincial Meetings and Conferences According to Level of Representation and Area of Government Activity — Alberta Participation, 1981

	First Ministerial	Ministerial	Deputy Ministerial	Total
Constitution	1	0	0	1
General Government	0	0	1	1
Finance	0	6	3	9
Agriculture	0	5	1	6
Transportation	0	4	0	4
Education	0	2	1	3
Energy and Resources	1	7	8	16
Environment	0	2	0	2
Manpower-Labour	0	3	2	5
Statistics	0	0	0	0
Welfare	0	0	1	1
Health	0	1	1	2
Industry and Trade	0	1	3	4
Urban Affairs	0	2	0	2
Justice and Laws	0	6	8	14
Consumer Affairs	0	1	0	1
Communications	0	2	1	3
Native Affairs	0	1	1	2
Miscellaneous	0	4	4	8
TOTAL	2	47	35	84

The relatively high number of meetings in the "Energy and Resources" category can be attributed, in part, to the intensive schedule of meetings between Alberta and federal ministers and senior officials in a collective effort to seek a resolution to energy related issues. (These negotiations are highlighted in Section VII of this Report.)

Negotiations between the Solicitors General of Canada and Alberta and their officials to develop a new Provincial RCMP Policing Agreement account for several of the meetings under the category of "Justice and Laws". Other meetings in this category dealt with human rights, uniform law and criminal justice.

The "Miscellaneous" category includes meetings in the areas of Tourism, Culture, Emergency Planning, Public Works, and Government Services.

B. INTERPROVINCIAL ACTIVITY

Considerable intergovernmental activity also takes place among the provinces. Provinces meet to discuss and compare policy positions and generally to exchange views on matters of mutual concern. Frequently, such meetings are held prior to federal-provincial conferences. In addition, permanent mechanisms for interprovincial cooperation have been established. Foremost among these formal meetings is the Annual Premiers' Conference. On a regional basis, Alberta participates in the annual Western Premiers' Conference.

The following tables break down the various interprovincial meetings and conferences into categories similar to those used for federal-provincial meetings.

TABLE V indicates there were eighty-nine interprovincial meetings and conferences held in 1981. Of these, seventeen were bilateral, fourteen were regional and fifty-eight were multilateral.

TABLE V

Frequency of Interprovincial Meetings and Conferences According to Category — Alberta Participation, 1981

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Bilateral	2	0	3	4	0	1	3	0	0	2	2	0	17
Regional	1	0	0	1	2	3	0	1	3	0	3	0	14
Multilateral	3	6	4	4	3	5	2	5	10	11	2	3	58
TOTAL	6	6	7	9	5	9	5	6	13	13	7	3	89

TABLE VI presents the statistics according to the level of representation, with eight first ministerial, forty-eight ministerial, and thirty-three deputy ministerial meetings recorded.

TABLE VI

Frequency of Interprovincial Meetings and Conferences According to Category and Level of Representation — Alberta Participation, 1981

	Bilateral	Regional	Multilateral	Total
First Ministerial	1	1	6	8
Ministerial	11	7	30	48
Deputy Ministerial	5	6	22	33
TOTAL	17	14	58	89

TABLES VII and VIII present interprovincial meetings broken down according to areas of government activity. The policy areas of "Constitution" and "Energy and Resources" show the highest degree of interprovincial activity. These meetings are described in Sections VI and VII of this Report.

TABLE VII

Frequency of Federal-Provincial Meetings and Conferences According to Category and Area of Government Activity — Alberta Participation, 1981

	Bilateral	Regional	Multilateral	Total
Constitution	2	1	18	21
General Government	2	1	1	4
Finance	1	2	4	7
Agriculture	0	2	1	3
Transportation	0	1	0	1
Education	1	2	5	8
Energy and Resources	8	2	2	12
Environment	1	0	1	2
Manpower-Labour	0	1	1	2
Statistics	0	0	0	0
Welfare	0	0	4	4
Health	0	0	3	3
Industry and Trade	2	0	2	4
Urban Affairs	0	0	5	5
Justice and Laws	0	0	1	1
Consumer Affairs	0	0	0	0
Communications	0	0	1	1
Native Affairs	0	0	3	3
Miscellaneous	0	2	6	8
TOTAL	17	14	58	89

* The eighteen multilateral meetings under the "Constitution" category reflect the interprovincial activities of the original six and subsequently eight provinces which were opposed to the federal government's unilateral initiatives with respect to the Constitution. Initially, the provinces attending were British Columbia, Alberta, Manitoba, Quebec, Prince Edward Island and Newfoundland. In March, 1981, Saskatchewan and Nova Scotia decided to join these provinces in their discussions.

TABLE VIII

Frequency of Interprovincial Meetings and Conferences According to Level of Representation and Area of Government Activity — Alberta Participation, 1981

	First Ministerial	Ministerial	Deputy Ministerial	Total
Constitution	4	10	7	21
General Government	3	0	1	4
Finance	1	4	2	7
Agriculture	0	1	2	3
Transportation	0	1	0	1
Education	0	3	5	8
Energy and Resources	0	10	2	12
Environment	0	1	1	2
Manpower-Labour	0	1	1	2
Statistics	0	0	0	0
Welfare	0	2	2	4
Health	0	2	1	3
Industry and Trade	0	3	1	4
Urban Affairs	0	3	2	5
Justice and Laws	0	1	0	1
Consumer Affairs	0	0	0	0
Communications	0	1	0	1
Native Affairs	0	2	1	3
Miscellaneous	0	3	5	8
TOTAL	8	48	33	89

C. SUMMARY

The importance of intergovernmental meetings as a mechanism to resolve conflicts and reach consensus in a federal state was especially evident in the 1981 reporting period. Two significant agreements were signed after extensive intergovernmental negotiations. Bilateral negotiations between Alberta and the federal government led to a Memorandum of Agreement relating to Energy Pricing and Taxation on September 1, 1981. On November 5, 1981, the Prime Minister and nine Premiers signed a Constitutional Accord which included constitutional provisions for an amending formula and a Charter of Rights. By securing this agreement, the way was cleared for patriation of Canada's Constitution.

IV CONFERENCES OF PROVINCIAL PREMIERS

Provincial Premiers have been meeting on a multilateral basis since 1960 and on a regional basis in Western Canada since 1965. These interprovincial meetings are important features of the Canadian intergovernmental process. The meetings afford Premiers the opportunity to study and discuss candidly issues of mutual concern and interest. Alberta is an active participant in both the Annual Premiers' Conference and the Western Premiers' Conference.

A. ANNUAL PREMIERS' CONFERENCE

The twenty-second Annual Premiers' Conference was held in Victoria, British Columbia, August 13-15, 1981. The agenda included many issues of critical importance to Canadians and to Confederation. The agenda for the 1981 Annual Premiers' Conference was as follows:

1. General Review of the Economy
2. Fiscal Arrangements
3. Federal-Provincial Relations (including the Constitution)
4. Interprovincial Cooperation

(Communiques from this Conference are included in Appendix II.)

The first agenda item dealing with the economy was of urgent priority to all governments. The Premiers expressed concern about high interest rates, the high rate of inflation and the weakness of the Canadian dollar. They also called on the federal government to work with the provinces in developing "made in Canada" economic policies including measures to strengthen the Canadian dollar.

The Premiers proposed a nine point national recovery program to restore confidence in the Canadian economy both domestically and internationally. The nine points put forward were consistent with the economic objectives agreed to by all eleven First Ministers at two previous Conferences on the Economy in February and November, 1978. The Premiers called for the scheduling of a First Ministers' Conference on the Economy as soon as possible to discuss and plan economic strategy.

On the subject of fiscal arrangements, the Premiers expressed grave concern about the federal government's intention to cut back federal funding to the provinces for the financing of health, hospitals and post-secondary education programs. A report prepared by provincial Finance Ministers and Treasurers was released by the Premiers at the Conference. The report called for the continuation of Established Programs Financing arrangements to provide stable, predictable and equitable funding for health, hospitals and post-secondary education services across Canada. (See Appendix II for the Ministerial Report.)

The Premiers issued a communique on Transportation and Grain Handling in which they admonished the federal government for announced cutbacks in Via Rail. They called for a National Conference on Transportation to review and coordinate plans to upgrade all modes of transportation in Canada.

Other communiques from the Conference directed provincial Finance Ministers and Ministers of Education to continue their work in several important areas. Finance Ministers were directed to study the benefits of the Canada/Quebec Pension Plan and suggest alternative approaches for pension reform. The Ministers of Education were instructed to develop more compatible core curricula across the country, to report on the progress of minority language instruction and to study the possibility of expanding Canadian educational publishing.

Provincial Premiers met again in Montreal on October 19, 1981, to discuss the Constitution. They also called upon the Prime Minister to convene a First Ministers' Conference on the Economy. (See Appendix II for the communiques.)

B. WESTERN PREMIERS' CONFERENCE

The 1981 Western Premiers' Conference was hosted by Manitoba in Thompson, April 28-29. The discussions covered a wide range of issues of concern to the Western Provinces: federal-provincial relations generally, the constitution, the economy, energy, transportation and grain handling, the Western Power Grid, and western regional cooperation. The Premiers directed their Intergovernmental Affairs Ministers to continue to assess areas of future cooperation. Particular emphasis was placed on proposals to enhance cooperation in the areas of culture, education, and science and technology. They asked that reports on various areas identified for future cooperation among the western provinces be tabled at the 1982 Western Premiers' Conference for consideration at that time.

At the Conference the Premiers directed their Ministers to take specific action in several other areas. Ministers responsible for agriculture were asked to work towards the harmonization and standardization of agricultural assistance programs and to continue to press their federal counterparts for early and better cooperation in the areas of drought assistance. Ministers responsible for transportation and grain handling were asked to prepare and present a special report on the findings of an in camera meeting of western producers of bulk commodities and the railway companies. In addition, the Premiers directed Western Economic Development Ministers to extend western provincial cooperation in economic policy development and coordination. With respect to the Western Power Grid, Ministers were instructed to complete internal analysis and joint financial studies and to advise the Premiers of their recommendations at the earliest possible date. (Appendix II includes the communiques of the 1981 conference.)

V FIRST MINISTERS' CONFERENCE ON THE ECONOMY

A. BACKGROUND

From the time that the last First Ministers' Conference on the Economy was held on November 27-29, 1978, the Premiers had repeatedly called upon the federal government to continue the joint consultative process in economic and fiscal matters and to convene another meeting of First Ministers. They noted that joint economic consultations had not been held since the two previous First Ministers' Conferences on the Economy were held in February and November 1978. During the reporting period of 1981-82, requests for a conference came from individual Premiers, from the Annual Premiers' Conference in Victoria, August 11-15, 1981, and from the Premiers' Meeting in Montreal on October 19, 1981. The Premiers emphasized the necessity of federal-provincial cooperation in the development and implementation of a national economic strategy. A conference was finally scheduled for February 2-4, 1982.

B. FIRST MINISTERS' CONFERENCE ON THE ECONOMY, FEBRUARY 2-4, 1982

The format of the First Ministers' Conference on the Economy, held in Ottawa, February 2-4, 1982, was patterned after the First Ministers' Conference on the Constitution, held the previous November. That is, opening and closing remarks were given in public sessions, while the remainder of the discussions among First Ministers were held in private. Unlike the previous First Ministers' Conferences in 1978, there was no detailed agenda for this meeting. Discussions were focussed around three broad headings:

1. Economic Management
2. Economic Development
3. Fiscal Arrangements and Established Programs Financing.

Issues such as inflation, interest rates, and unemployment received considerable attention, reflecting the expectations of Canadians that their governments would address ways of easing the current economic burdens facing the nation. The policies and objectives necessary to promote a resurgence of economic growth and development were also addressed.

There was a frank exchange of views on these issues and on the issue of Established Programs Financing, but no consensus was reached on ways to reduce Canada's economic problems. No communique was issued.

C. ALBERTA POSITION AT CONFERENCE

In his opening remarks, Premier Lougheed stated:

> Alberta comes to this Conference today in the hope that a consensus can be reached on what is requred to get Canada firmly on the road to economic recovery and to obtain a commitment from all parties to work together to ensure success. In my judgement, intergovernmental cooperation is essential. It is a reality of our federal state and to ignore it is to invite failure.

The Premier proceeded to outline the key elements of a national economic recovery strategy from Alberta's perspective:

1. made-in Canada Interest Rate Policy;
2. emphasis on the private sector as the engine for economic growth;
3. restoration of Investor Confidence;
4. public Sector Wage and Salary Guidelines to ensure the public sector does not lead the private sector;
5. expansion of Export Potential
6. strengthening the Transportation System.

(Notes for Premier Lougheed's opening and closing remarks are found in Appendix III.)

VI THE CONSTITUTION

The reporting period witnessed historical developments in the evolution of Canada's constitutional framework. The Constitutional Accord signed by the Premiers of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland, and the Prime Minister of Canada on November 5, 1981, cleared the way for the patriation of Canada's Constitution. There was an agreement that patriation would be accompanied by constitutional provisions for an amending formula, a Charter of Rights and Freedoms, constitutional recognition of the principle of equalization, a clarification and strengthening of provincial jurisdiction over natural resources and the recognition and affirmation of existing aboriginal rights. The November 5 Constitutional Accord brought to a conclusion one of the most intensive and divisive constitutional debates in Canada's history.

A. BACKGROUND

In October 1980 the federal government introduced in the House of Commons several constitutional provisions contained in a Resolution. These proposals, which were brought forth on a unilateral basis, were designed to provide for the patriation of the Constitution, thus ending the responsibility of the British Parliament to amend certain key parts of the **British North America Act,** Canada's Constitution. They also contained provisions for a Charter of Rights, an amending formula, constitutional recognition of the principle of equalization and clarification of provincial legislative responsibility over natural resource management and control. The federal initiatives were proposed without the consent of the provinces.

Only two provinces, Ontario and New Brunswick, supported the federal proposals. The remaining eight provinces had a number of serious reservations respecting both the unilateral process and the content of the proposals. Alberta, like the majority of provinces supporting the objective of patriation, maintained that patriation must be accompanied with appropriate safeguards for existing provincial rights and responsibilities thereby respecting the federal nature of Confederation. Alberta did not believe that the proposed federal Resolution had such safeguards, and the Government objected to the federal attempt to have the provisions of the federal Resolution forced upon the provinces without their consent. It was felt that such a move would represent a significant departure from Canada's constitutional history and violate the spirit and intent of Confederation. For these reasons, in October 1980 Alberta joined with the provinces of British Columbia, Manitoba, Quebec, Prince Edward Island and Newfoundland in calling upon the federal government to abandon its unilateral initiatives and to renew federal-provincial negotiations to seek a consensus on an alternative approach to the proposals contained in the proposed Resolution. These six provinces were later joined by Nova Scotia and Saskatchewan.

B. THE APRIL 16, 1981, "CONSTITUTIONAL ACCORD: CANADIAN PATRIATION PLAN"

In the months following the announcement of the federal initiatives with respect to the Constitution the eight opposing provinces worked towards the development of an alternative patriation plan. In Ottawa, on April 16, 1981, in the Conference Centre the Premiers of Alberta, British Columbia, Manitoba, Newfoundland, Nova Scotia, Prince Edward Island, Quebec and Saskatchewan signed a Constitutional Accord which called for patriation of the Constitution and a new amending formula that would allow all future amendments to the Constitution to be made in Canada (see Appendix IV). Under the terms of the agreement, the eight provinces agreed:

- to patriate the Constitution of Canada;
- to adopt a new amending formula for the Canadian Constitution which would recognize the equality of provinces within Canada;
- to enter into intensive constitutional negotiations during a three-year period based on the new amending formula; and

— to discontinue the court proceedings which the provinces initiated relative to the federal resolution.

The Patriation Plan was designed to provide an alternative course of action to the unilateral federal initiatives and was conditional upon the Government of Canada withdrawing its proposed Resolution with respect to the Constitution. The Governments of Ontario and New Brunswick were invited to sign the Accord. Neither the federal government nor the Governments of Ontario and New Brunswick endorsed the April 16 Accord.

The April 16 Constitutional Accord may be seen as a significant achievement, for it demonstrated that agreement among provinces was possible. Moreover, the amending formula contained in the agreement became the basis for a federal-provincial consensus later in the year.

C. PROVINCIAL ACTIVITIES IN THE UNITED KINGDOM

Up to the November constitutional agreement the eight provinces opposed to unilateral federal action continued to express to the United Kingdom government and British parliamentarians their opposition to the federal government's constitutional initiatives. While recognizing the role of the United Kingdom in the amendment of the Canadian constitution, the provinces requested that the United Kingdom Parliament refuse to pass any requests to amend Canada's constitutional system unless such requests conveyed the clearly expressed wishes of Canada as a federally structured whole.

During 1981 Alberta House in London was instrumental in presenting to British parliamentarians Alberta's point of view on the patriation of Canada's constitution. As the province responsible for coordinating provincial opposition to the original federal patriation scheme, Alberta, through Alberta House, took the lead in coordinating the efforts of other provincial offices in London whose governments were also opposed to that measure.

D. PROVINCIAL COURT CHALLENGE RESPECTING THE FEDERAL RESOLUTION

Following the federal government's October 2, 1980, announcement that it intended to proceed unilaterally to patriate and amend the Constitution, Alberta joined with the provinces of British Columbia, Manitoba, Quebec, Prince Edward Island and Newfoundland in challenging the constitutionality of the federal proposals in the courts. Reference cases were initiated in the Manitoba, Newfoundland and Quebec Courts of Appeal. The cases were initiated in these provincial courts of appeal because the federal government had rejected suggestions that the matter be referred to the Supreme Court of Canada for resolution. The judgements of the provincial courts were subsequently appealed to the Supreme Court of Canada.

The Supreme Court heard the appeals for four days commencing on April 28, 1981. All ten provinces and the federal government appeared before the Supreme Court. Ontario and New Brunswick intervened on behalf of the Government of Canada. Saskatchewan and Nova Scotia joined the other six provinces who had initiated the court challenge and intervened on behalf of the Manitoba appeal before the Supreme Court. The Supreme Court delivered its judgement on September 28, 1981.

The Supreme Court was asked its opinion on three questions. The first question before the Court was whether the federal proposal would affect federal-provincial relations or the powers, rights or privileges granted or secured to the provinces by the Constitution. The Court unanimously answered in the affirmative to this question. In the words of the Court:

> Certainly, it is plain that under the terms of the enactments proposed in the Resolution, the legislative powers of the provincial legislatures would be affected, indeed, limited by the Charter of Rights and Freedoms. The limitations of the proposed Charter of Rights and Freedoms on legislative power apply both at the federal level and provincial level. This does not, however, alter the fact that there is an intended suppression of provincial legislative powers.

The second question before the Supreme Court was whether it is a constitutional convention that the Parliament of Canada will not request the U.K. Parliament to amend the Constitution in areas affecting the provinces without first obtaining the agreement of the provinces. Six of the nine judges determined that there was such a convention and placed considerable emphasis on the importance of conventions to Canada's constitutional framework. According to the Court "while conventions are not laws some conventions may be more important than some laws". The reason given for answering in the affirmative to this question was the federal nature of Canada's system of government. The six judges noted:

> The federal principle cannot be reconciled with a state of affairs where the modification of provincial legislative powers could be obtained by the unilateral action of the federal authorities.

They went on to say:

> It is true that Canada would remain a federation if the proposed amendments became law. But it would be a different federation made different at the instance of the majority in the Houses of the Federal Parliament acting along.

The third question before the Supreme Court was whether the agreement of the provinces is **constitutionally required** before amendments can be made to the Constitution where such amendments affect the provinces. In rendering its decision on this question, the majority of the Court split the constitutionality of the federal proposal into a matter of strict law and a matter of convention. As a matter of law, the Court held that there was nothing to prevent the House of Commons and the Senate from forwarding a Joint Resolution to the Parliament of the United Kingdom. The Court stressed, however, that to proceed without the agreement of a "substantial" number of the provinces would violate the long established conventions of Canada's Constitution. In the words of the Court:

> the agreement of the provinces of Canada, no views being expressed as to its quantification, is constitutionally required for the passing of the "Proposed Resolution for a Joint Address to Her Majesty respecting the Constitution of Canada" and that the passing of this Resolution without such agreement would be unconstitutional in the conventional sense.

In summary, the Supreme Court judgement stated unequivocally that the proposed federal Resolution, while technically legal, was not in accord with Canada's established constitutional conventions. (For the reaction of the Government of Alberta to the Supreme Court decision, see Appendix IV: Statement by Honourable Neil Crawford and Honourable Dick Johnston, September 29, 1981.)

E. FIRST MINISTERS' CONFERENCE ON THE CONSTITUTION, NOVEMBER 2-5, 1981

Following the Supreme Court of Canada's opinion on the constitutionality of the proposed federal Resolution, the Prime Minister agreed to convene a First Ministers' Conference on the Constitution to attempt to reach a consensus which would pave the way for patriation and certain constitutional amendments.

First Ministers adopted a format based on public sessions for opening and closing remarks, with the remainder of the discussions occurring in private sessions. While no formal agenda was adopted, it was generally understood that the primary objective was to devise an acceptable alternative to the Resolution which had been debated by Parliament.

Premier Lougheed, in his opening remarks, emphasized the importance of developing constitutional amendments through federal-provincial negotiation and consensus. Unilateral federal action, in Alberta's view, negated the very principle of federalism. In his view the task facing the Conference was to achieve patriation and an acceptable amending formula. As well, First Ministers should determine whether they wished to propose other constitutional amendments. (See Appendix IV for Premier Lougheed's Opening Remarks to the Conference.)

On November 5, following two and one-half days of intensive negotiations, Prime Minister Trudeau announced that a consensus had been reached among the First Ministers. The agreement, which became known as the November 5 Constitutional Accord, was signed by the Prime Minister and the Premiers of British Columbia, Alberta, Saskatchewan, Ontario, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland. The Attorney General of Manitoba signed on behalf of Premier Lyon.

In summary, the signatories, under the terms of the Accord, agreed to:

— Patriation, thereby achieving full Canadian sovereignty;
— a new amending formula for future amendments to the Constitution based on the principle of the constitutional equality of provinces;
— a Charter of Rights and Freedoms which includes a clause designed to preserve the tradition of parliamentary supremacy;
— clarification and strengthening of provincial jurisdiction over natural resources;
— a commitment to the principle of equalization and the reduction of regional disparities to promote equal opportunities for Canadians.

The key to the consensus lay in the amending formula. Over the years, attempts had been made to devise an amending formula which would allow constitutional amendments to be made in Canada. Without such a formula, patriation could not be achieved. The formula agreed to on November 5 by ten of the eleven participating governments was based on a proposal originally suggested by Alberta in 1979 which had subsequently been used as the basis for the eight provinces' accord of April 16, 1981. The amending formula provided safeguards for the protection of existing provincial legislative powers, rights and proprietary interests. These safeguards had been lacking in the amending formula contained in the resolution before Parliament.

The Constitutional Accord was tabled in the Parliament of Canada on November 5. (The Accord and the ministerial statement in the Alberta Legislature respecting the Accord are contained in Appendix IV.) On November 10, 1981, the Alberta Legislature, by a vote of 51-1, passed the following resolution of support for the Accord:

> Be it resolved that the Legislative Assembly endorse and support the constitutional agreement for patriation signed by the Premier on behalf of Alberta on November 5, 1981.

The agreement reached on November 5 was subsequently amended with the concurrence of the nine provinces to include provisions regarding the recognition and affirmation of existing aboriginal rights, the equality of men and women under the Charter of Rights and Freedoms and fiscal compensation when a constitutional amendment transfers provincial legislative powers relating to education or other cultural matters to Parliament.

The Resolution respecting the Constitution, as amended to reflect the November 5 Constitutional Accord, was approved by the House of Commons on December 2, and by the Senate on December 8. On December 8, the Resolution was transmitted by way of a Joint Address to Her Majesty the Queen for the approval of the United Kingdom Parliament. The Joint Address received the approval of the United Kingdom House of Commons on March 8, 1982, and the House of Lords on March 25. On March 29, the constitutional amendments received Royal Assent. The **Constitution Act** was proclaimed by the Queen in Ottawa on April 17, 1982.

VII ENERGY

A. ENERGY NEGOTIATIONS

The reporting period saw several significant events occur in relation to energy matters. The three western producing provinces of British Columbia, Alberta and Saskatchewan concluded energy pricing and taxation agreements with the federal government which substantially altered the pricing and tax structure announced in the federal National Energy Program (NEP) of October 1980. In addition, Alberta concluded a memorandum of agreement with the federal government respecting natural gas pricing and market development incentive payments. With the conclusion of the agreements, provincial management and control over crude oil and natural gas resources were restored.

The following is a summary of the major intergovernmental discussions and events which occurred during the reporting years.

1. Federal-Provincial Energy Negotiations

In October 1980 the federal government unilaterally announced its National Energy Program (NEP), which the Government of Alberta considered to be both discriminatory and punitive. The Premier of Alberta described the NEP as "an outright attempt to take over the resources of this Province".

In response to the program, the Government of Alberta undertook to reduce gradually the production of crude oil, hold two oil sands projects in abeyance and initiate a court challenge respecting imposition of an export tax on natural gas owned by the Province. In March 1981 the Alberta Court of Appeal ruled unanimously that such a federal tax was ultra vires as it applied to that gas. The federal government appealed the decision to the Supreme Court of Canada, which heard arguments in June, 1981, and upheld the decision of the Alberta court.

Because of the discriminatory and punitive provisions against Alberta in the federal budget and the N.E.P., the Government of Alberta felt it had to take significant action. On March 1, 1981, the Alberta Government reduced production of crude oil by 60,000 barrels per day. This was followed by further reductions of 60,000 barrels per day on June 1, and September 1, 1981. Approval on two oil sands projects, Alsands and Esso Cold Lake, was held in abeyance pending the conclusion of a fair and equitable agreement on conventional crude oil and natural gas.

Energy negotiations between Alberta and the federal government which had broken off in October 1980, resumed in May 1981. Several meetings were held during the summer and culminated in late August, in Montreal where, after a week of intensive negotiations, the Government of Alberta and the federal government concluded a memorandum of agreement relating to energy pricing and taxation. (See Appendix V). The main features of the agreement signed by the Prime Minister of Canada and the Premier of Alberta on September 1, 1981, are as follows:

a. Pricing

The issue of pricing for most of Canada's oil and natural gas production was settled for a period in excess of five years (September 1, 1981, to December 31, 1986).

- — Conventional oil prices were significantly higher than those announced in the NEP. They would increase, by July 1, 1986, to a target of 75 per cent of the forecasted international price.
- — Pricing for new oil discoveries and enhanced recovery from existing oil reserves is related to anticipated international prices.

— Gas is priced at the Alberta border, thus eliminating Alberta's burden of carrying transportation costs. Alberta will provide Market Development Incentives Payments to encourage new Canadian natural gas sales.

b. Taxation and Royalties

The agreement establishes a taxation and royalty arrangement for Alberta's oil and natural gas exploration industry for the period to December 31, 1986. The key features are:

— Alberta will retain its royalty system, but review its royalty rates.
— The proposed federal tax on the export of natural gas is eliminated.
— The Petroleum and Gas Revenue Tax is removed from the wellhead.
— Neither government will introduce any tax, royalty or levy which could change the revenue balance announced in the agreement.

c. Revenues

The agreement provides that in excess of $200 billion of revenue will be shared on the following basis: 44 per cent by the petroleum industry; 30 per cent by the owner (mainly the Government of Alberta); and 26 per cent by the federal government.

d. Petroleum Incentives

The Alberta Government agreed to administer and fund the Petroleum Incentives Program for exploration and development activity in the Province. It will cost an estimated $4.3 billion during the length of the agreement.

e. Oil Sands

The agreement clears the way for expeditious oil sands approval and cooperation between the two governments in furthering oil sands development.

f. Natural Gas Exports

The federal government undertook to authorize additional gas exports subject to considerations of overriding national interest and National Energy Board determination that an exportable surplus exists.

Pursuant to the agreement, the two governments began discussions on the natural gas pricing and market development incentives. These culminated in the conclusion of an agreement in November on Gas Pricing and Market Development Incentive Payments. The agreement provides the basis for pricing natural gas at the Alberta border, ensuring that funds received from the export of gas flow back to Alberta producers. The agreement also provides the mechanism and criteria for making Market Development Incentive Payments to encourage new gas sales in Canada.

Discussions with the federal government and project sponsors continued on the Alsands project. By the end of the reporting period, final agreement had not been reached on the financial terms and conditions for the project.

2. Interprovincial Energy Discussions

The Government of Alberta held substantial discussions on energy with other provincial governments. Energy, particularly the adverse impact of the National Energy Program, was one of the major themes of discussion at the Western Premiers' Conference in April 1981. The Western Premiers in their communique expressd concern about the introduction of the

NEP which had a negative economic impact on all of Canada and which disregarded provincial ownership rights with respect to natural resources. The Western Premiers also agreed that unless the NEP was changed, Canada's promising economic potential would not be realized.

At the Annual Premiers' Conference in August 1981 the Premiers noted that a major step towards renewing confidence in the Canadian economy would be the conclusion of fair and equitable energy agreements between the federal government and the producing provinces.

In October 1981 at the meeting of the Council of Provincial Energy Ministers, the provincial governments issued a communique highlighting the following: interprovincial cooperation on energy conservation and research and development; the willingness of provincial governments to adopt demand restraint measures in emergency situations; concern with the proposed federal Energy Security Bill; and concern at increasing federal intrusions in provincial energy programs.

B. ALASKA HIGHWAY GAS PIPELINE PROJECT

During 1981-82, construction proceeded on the eastern leg of the prebuild with over one-half of the anticipated 376.9 km. of pipe being laid. The federal-provincial administrative and environmental surveillance agreements signed the previous year guided the work of federal and provincial governments in this area. Under these agreements, the Province was actively involved in the review of socio-economic and construction plans for the pipeline submitted by Foothills Pipe Lines (Alberta) Ltd. Furthermore, provincial environmental surveillance offices worked closely with the officers of the Northern Pipeline Agency to ensure that damage to Alberta's environment resulting from pipeline construction was minimized and corrected.

In addition to the focus on the 1981-82 construction intentions, attention was devoted to matters outstanding from the previous year's construction of the western leg. Planning was also undertaken in anticipation of the start of construction on the northern mainline to Alaska.

The Office of the Provincial Pipeline Coordinator was the "single window" for Alberta's involvement with the project. Its responsibilities included: streamlining and simplifying the regulatory process, monitoring political and economic developments in the United States, and working in cooperation with the federal Northern Pipeline Agency.

VIII. FISCAL ARRANGEMENTS AND ESTABLISHED PROGRAMS FINANCING

One of the more difficult issues facing any federal system is the balancing of revenues and responsibilities between the two orders of government. While the Constitution may attempt to provide such a delineation, often fiscal adjustments are necessary to reflect changing conditions.

In Canada, the key aspects of our current fiscal system are found not just in the provisions of the Constitution, but also in the **Federal-Provincial Fiscal Arrangements and Established Programs Financing Act,** first passed by the Parliament of Canada in 1977.

Established Programs Financing (Hospital Insurance, Medicare, Extended Health Care and Post-Secondary Education) and Equalization, provided for in the Act, are the cornerstone of Canadian fiscal federalism, accounting for $61 billion in transfers from the federal government to the provinces between 1977-1982. Since a number of the provisions were due to expire on March 31, 1982, these programs were subject to a review by the federal and provincial governments in the reporting period.

Aware that the equalization program was due to expire on March 31, 1982, and concerned about the federal government's announcement in the October 1980 federal budget that significant savings in transfers would be sought, provincial Finance Ministers and Treasurers at the December 17, 1980 federal-provincial finance meeting urged the federal Finance Minister to begin fiscal negotiations early. Although at the 1981 Western Premiers' Conference and the Annual Premiers' Conference the provinces continued to call for the commencement of negotiations, another Finance Ministers' meeting was not held until November 23-24, 1981.

Further meetings of Finance Ministers on this issue were put in abeyance when, on February 5, 1981, the federal government established the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements to examine the **Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977.** In its terms of reference, the Task Force was directed to study these arrangements within the context of the October 1980 federal budget. However, several Task Force members found this approach unacceptable because it would have meant implicit acceptance of the federal government's expressed intention to achieve significant savings by reducing transfers to the provinces. Instead, the Task Force concentrated on the major questions of appropriate structure and institutional design in intergovernmental fiscal arrangements. Public hearings involving the Task Force began on April 23, 1981.

In a lengthy submission to the Task Force, the federal Finance Minister confirmed that he expected to cut $1.5 billion in fiscal transfers between 1982-84. His presentation centered on the following points:

- the fiscal position of the federal government must be strengthened relative to the provinces;
- the federal deficit must be reduced;
- to accommodate economic development priorities, savings must be made in transfers to the provinces;
- the federal government should receive increased visibility for its transfers;
- enforceable conditions should be attached to federal transfers in post-secondary education and health care to ensure national standards and accountability.

Apart from these general guidelines expressed by Finance Minister MacEachen, the federal government indicated that it would not present concrete proposals on fiscal arrangements until the Parliamentary Task Force had completed its study. The Task Force Report was released in August with a number of recommendations for adjustments to the existing arrangements.

At the April 1981 Western Premiers' Conference, the Premiers of British Columbia, Alberta, Saskatchewan and Manitoba stated that the fiscal arrangements introduced in 1977 had served Canada well and that no major changes were needed. They suggested that the upcoming federal-provincial discussions of the fiscal arrangements should be guided by the following principles:

1. Stability and Predictability

A key goal of the 1976 negotiations was to ensure stable and relatively permanent transfers. Payment reductions could seriously disrupt health and post-secondary programming.

2. Flexibility and Balance

EPF and equalization should continue to ensure that all provinces have adequate fiscal capacity to maintain and improve the quality of services.

3. Rationalization and Simplification

The fiscal arrangements should respect jurisdictional responsibilities. Intrusions into provincial fields of jurisdiction result in unnecessary overlap and duplication and could be damaging to programs.

4. Clarity of Responsibilities

There should be a clear and unambiguous understanding between both orders of government regarding provincial program obligations associated with federal EPF transfers.

5. Fiscal Responsibility

Federal budgeting problems should not be resolved by transferring the deficit to the provinces.

6. Cooperation and Genuine Federal-Provincial Consultation

It is imperative that the two orders of government have adequate time for consultation and negotiation.

At a meeting of Western Provincial Finance Ministers in Edmonton on June 1, 1981, the Western Ministers stated their concerns relating to reductions in future federal government transfers and they emphasized that Ottawa should not resolve its budgetary problems by transferring expenditure obligations onto the provinces (see Appendix VI).

The fiscal arrangements were also discussed by the ten Premiers in the summer of 1981. In their communique on fiscal arrangements at the August 1981 Annual Premiers' Conference, the Premiers expressed their continuing concern about federal intentions to cut back on EPF funding and the federal government's failure to present concrete proposals to the provinces. They also noted the difficulty in preparing 1982/83 provincial budgets without knowing what to expect in the way of federal transfers under the **Fiscal Arrangements and Established Programs Financing Act.**

Further federal government proposals were put forth in the November 12, 1981, budget. The proposals included:

- a new equalization formula based on the financial capacity of Ontario
- elimination of compensation for removal of the revenue guarantee, saving the federal government $5.3 billion over five years;
- making all Established Programs Financing contributions equal per capita, thereby eliminating the "fiscal dividend";
- clarification and enforcement of national standards for health care with federal legislation to be incorporated by March 31, 1983;
- new federal-provincial arrangements for the financing of post-secondary education and human resources development to be incorporated in federal legislation by March 31, 1983.

On November 23 and 24 federal-provincial Ministers of Finance met to discuss the matters contained in the federal budget. The provinces expressed serious reservations regarding the equalization and EPF proposals. They suggested that if the federal suggestions were implemented, provinces would be forced to lower the quality of services provided under Established Programs Financing, increase taxes or deficits, or decrease funding to other provincial programs. Also, they completely rejected the federal government's proposal to negotiate financing arrangements separately from any new program conditions under Established Programs Financing.

By the next federal-provincial Finance Ministers' Meeting on December 14-15, it became evident that the federal government was not prepared to discuss alterations to the Established Programs Financing proposals contained in the November budget. Thus, the financing terms under Established Programs Financing were to be set prior to any discussion of program standards in these areas. This approach was of concern to the provinces because new program standards could, in fact, increase the costs of the established programs as well as represent an intrusion into areas of provincial jurisdiction.

During discussions on equalization at the December Finance Ministers' Meeting, a number of provinces (the Atlantic Provinces, Quebec and Manitoba) expressed concern about the federal equalization proposals. In an effort to provide alternative approaches, two provincial consensus documents were released at the December meeting, prepared jointly by all provinces except Quebec. The first, the "Provincial Report on the Revised Equalization Program Proposed in the November 12, 1981, Federal Budget", raised the following concerns:

1. The Standard of Equalization: The adoption of Ontario's tax base as the single standard is a major departure from the national average "representative tax system" approach. Substitution of a single province as the standard would increase the vulnerability of recipient provinces to significant fluctuations in entitlements by basing it on developments in Ontario's economy.
2. The Measurement of Fiscal Capacity: Full inclusion of resource revenues and addition of municipal revenues from taxation in equalization calculations, tied to the "Ontario Standard", could produce major negative effects.
3. Financial Disincentives: The use of the "Ontario Standard" in conjunction with present tax bases could lead to inordinate financial disincentives for governments in equalization-receiving provinces when undertaking certain types of development activity.
4. The G.N.P. Cap: Placing an upper limit on payments, based on the G.N.P. rate of growth, would impose for the first time an arbitrary growth ceiling on overall equalization payments.
5. Economic and Revenue Growth Assumptions: Some provinces questioned the validity of federal and provincial growth projections and suggested a review of entitlement assessments.
6. General Tax Base Modifications: Modifications to measurements of provincial tax bases should not be made without full federal-provincial consultation.
7. The provinces called for full and detailed consultations without the imposition of an arbitrary deadline. Until this is accomplished the current arrangements should remain in effect.

The second consensus document, the "Provincial Report on the Established Programs Financing Arrangements" (See Appendix VI) outlined the provincial position on EPF as follows:

1. The federal government is attempting a fundamental overhaul of EPF which is a clear breach of trust and may constitute termination of the 1977 agreement;
2. The federal government is merely attempting to shift its deficit to provincial taxpayers; there is not a net savings for Canadian taxpayers;
3. The federal government's proposed cuts will mean a reduction in the quality of services for health care and higher education or increased provincial taxes;
4. The federal government is attempting to disguise the severity of the impact on the provinces of the cuts to EPF; and
5. The federal government is imposing a process which includes arbitrary deadlines, split negotiations and threats of future cuts in federal financing.

The provinces requested a continuation of the existing arrangements to ensure that negotiations could proceed without unilateral Established Programs Financing funding cuts and with a complete negotiating package on the table.

Provincial Ministers of Finance and Treasurers also suggested that, in view of the potential fiscal repercussions, federal-provincial discussions on program standards and conditions be joint discussions involving Ministers of Finance as well as the appropriate program ministers.

The Provincial Report concluded:

> "The provinces feel strongly that the federal government's continual breach of faith in the area of fiscal arrangements will have dangerous implications for federal-provincial trust and confidence. Furthermore, they wish to stress to the federal government that any unilateral cutbacks will seriously impact upon the quality and availability of health care and post-secondary education to the citizens of Canada."

At the January 22, 1982, federal-provincial Finance Ministers' Meeting little progress was made in resolving the outstanding issues. The federal Finance Minister, Honourable Allan MacEachen, continued to resist any discussion of EPF except to say that the federal government was committed to budget restraint. However, he did respond somewhat favourably to minor adjustments to the equalization budget proposal. He was prepared to consider injecting an undefined sum to the equalization pot by adding additional revenue sources, applying a transitional arrangement for certain provinces, placing a floor on equalization entitlements, and changing the base year for calculating payments from 1981-1982 to 1982-83. The provinces were dissatisfied with the federal approach to the negotiations, and it became clear that the issues would be referred to First Ministers at the February 1982 First Ministers' Conference.

At the First Ministers' Conference, both the federal government and the provinces put forward new proposals. The provinces suggested a one year extension of the current arrangements with a 12 per cent growth ceiling applied to overall fiscal transfers. This would provide Finance Ministers with additional time to work out new fiscal arrangements. The federal government rejected the proposal but made a commitment to "find" an additional $1 billion to enrich the equalization program over the next five years.

Two specific federal proposals were also tabled at the Conference. First, in regard to equalization, the federal government suggested that a five-province standard be substituted for the Ontario Standard proposed in the November budget. Second, the federal government offered to extend for two years existing EPF transfers to post-secondary education in exchange for provincial agreement to the other fiscal arrangements proposals and for a commitment to abide by stringent conditions with respect to future higher education funding. These conditions included the following:

- that provinces increase their spending on post-secondary education at a rate equal to the rate of increase in EPF cash and tax transfers;
- that provinces consider mechanisms to assist in improving accountability to the federal Parliament for expenditures and ensuring that Canadians are aware of the sources of funding;
- that provinces undertake to discuss with the Secretary of State mechanisms for achieving national objectives in post-secondary education with a view to defining these objectives in federal legislation (mobility rights, language rights, accessibility, joint planning).

While the provinces were responsive to a federal-provincial dialogue on matters pertaining to post-secondary education, they were not prepared to submit to any pre-conditions in an area of provincial jurisdiction. They also felt that the proposed five-province standard for equalization would require further study by officials. No consensus was be reached on the fiscal arrangements at the First Ministers' Conference.

On March 19, 1982, the federal Minister of Finance tabled legislation in the House of Commons to amend unilaterally the method through which both EPF and equalization transfers are determined over the next five year period. The bill would entail cash and tax transfers of approximately $105 billion. Of this amount, $29 billion would be directed to equalization payments and $76 billion would be transferred through EPF. The key elements of the new equalization program include:

- — introduction of the Five-Province Standard (equalization entitlements will be determined by computing the average revenue sources of five provinces with those of each province);
- — addition of local government revenues;
- — inclusion of all resource revenues from the five provinces;
- — annual growth in equalization tied to rate of growth in GNP from a 1982 base year;
- — overpayments to certain provinces over the past two years forgiven;
- — a three year transition period to minimize the economic impact of the new formula on certain provinces;
- — floor payments ranging from 85-95 per cent of the previous year's entitlements.

Changes incorporated into EPF would include those proposed in the November budget:

- — equal per capita cash and tax transfers;
- — compensation for termination of the revenue guarantee is repealed.

By the end of the reporting period Bill C-97, which incorporated the above-noted amendments to the **Federal-Provincial Fiscal Arrangements and Established Programs Financing Act,** 1977, had passed through second reading and was due to become law within a week.

Bill C-97 incorporates far-reaching amendments to the Fiscal Arrangements Agreement negotiated in 1976, which had been reached after lengthy and difficult negotiations between the federal and provincial governments and which had been hailed as a cornerstone of cooperative fiscal federalism. With the new Act, the federal government was imposing unilaterally the Five-Province Standard for equalization, making per capita contributions under EPF to each province indentical, and eliminating compensation for termination of the revenue guarantee. None of these measures had gained the support of the provinces. When compared with the 1977-1982 arrangement, total losses to the provinces have been estimated as high as $10.7 billion over the next five years.

IX FEDERAL-PROVINCIAL PROGRAMS AND ACTIVITIES

In accordance with the responsibilities assigned by the **Department of Federal and Intergovernmental Affairs Act, 1972,** the Department continues to monitor existing intergovernmental programs and activities and participates in negotiations leading to the signing of new or revised agreements. (See Appendix VI for a list of federal-provincial agreements in effect in Alberta as of March 31, 1982.) Generally speaking, certain intergovernmental agreements are designed to avoid duplication of services or programs. Other agreements have facilitated the flow and exchange of information and expertise. Still others have helped to balance the fiscal capabilities across the country. Some agreements apply uniformly across the country while others vary in their application from province to province. In some instances, agreements are executed on a bilateral basis between a particular province and the federal government, adding a measure of flexibility and enabling individual provinces to respond better to their own needs and interests. These variations in the purpose, terms and application of federal-provincial agreements reflect the complexity of Canada's federal system and the diverse nature of this country.

The following activities and new agreements illustrate the importance of maintaining and promoting effective consultation among the two orders of government.

A. NEW FEDERAL-PROVINCIAL AGREEMENTS AND RENEWAL OF EXISTING AGREEMENTS

The Department of Federal and Intergovernmental Affairs is involved with other Alberta departments in the negotiation of all federal-provincial agreements. During the review process, the Department ascertains whether the agreement is consistent with the Province's intergovernmental priorities.

In 1981-82, agreements were signed by Alberta in the following areas:

1. Agriculture

a. Waterfowl Crop Damage Compensation Program

The purpose of this Agreement is to undertake a compensation program in order to reduce income losses to Alberta grain producers caused by migratory waterfowl damaging grain crops. The program costs are shared by the federal and Alberta Governments. The Alberta Government (Department of Energy and Natural Resources) administers the Agreement. This year's Agreement continued the Program for one additional year - to March 31, 1982.

b. Waterfowl Crop Damage Prevention Program

The purpose of this Agreement is to implement programs to minimize farmer losses caused by migratory waterfowl. A committee with equal representation from the Government of Canada and the Government of Alberta is responsible for joint planning and recommendation of appropriate prevention programs. The program costs are shared by the federal and Alberta Governments. Regarded as complementary to the Damage Compensation Program, the Agreement was renewed to March 31, 1982.

2. Environment

a. The Canada-Alberta Accord for the Protection and Enhancement of Environmental Quality

The purpose of this Accord is to provide a mechanism for cooperative federal-provincial efforts in protecting environmental quality. Due to expire in October 1981, the Accord was extended for an additional one year period, to October 8, 1982.

b. Irrigation Rehabilitation Program

The purpose of the Agreement is to provide for rehabilitation or repair of certain water diversion and control works in Southern Alberta and the transfer to provincial jurisdiction of all federal interests in the Bow River and St. Mary's Irrigation projects. While the original Agreement was due to expire on March 29, 1982, the Irrigation Rehabilitation Agreement has been extended for an additional six-year period, to March 29, 1988. The extension will allow for the fulfillment of outstanding federal obligations with respect to the rehabilitation of the Bassano Dam and disposition of the original Brooks Aqueduct.

3. Solicitor General

Provincial RCMP Policing Agreements

This Agreement represents the conclusion of a full year of federal-provincial negotiations on provincial and municipal policing contracts. Under the new ten-year Agreement the RCMP will continue to act as the Alberta provincial police and will provide police services to contracting municipalities. The contract for RCMP services enables the provincial government to execute its constitutional responsibility for the administration of justice. The new Agreement also provides for cost-sharing for police services between both orders of government with a phasing-in of the provincial and municipal shares of the increases. The RCMP Policing Agreement will expire in 1991.

4. Transportation

The following agreements to undertake specific projects and purchases were signed in the reporting period.

a. Garden Creek Bridge Maintenance Agreement

This Agreement provides for the recovery of costs incurred by the province for maintenance of the timber bridge over Garden Creek in Wood Buffalo National Park until the construction of a new bridge.

b. Garden Creek Bridge Construction Agreement

This Agreement provides that Canada will pay Alberta the cost of constructing a new bridge over Garden Creek in Wood Buffalo National Park.

c. Grande Prairie Airport Agreement

This Agreement replaces the 1978 memorandum of understanding wherein Alberta agreed to construct a new airport in the City of Grande Prairie. The Agreement provides a schedule for repayment of the capital costs incurred by the Province.

d. Lethbridge Airport Agreement

This Agreement replaces the 1978 memorandum of understanding wherein Alberta agreed to construct a new Airport in the City of Lethbridge. The Agreement provides a schedule for repayment of the capital costs incurred by the Province.

e. Peace River Airport Agreement

The Agreement provides for the construction of a new air terminal building at Peace River. The Province will construct the airport and assume capital costs of a new terminal without reimbursement by the federal government.

f. Hopper Car Purchase Agreement

The Agreement signed June 10, 1981, provides for the purchase of one thousand grain hopper cars by the Province as part of an order for cars made by the Canadian Wheat Board.

g. Transfer of Abandoned Rights of Way Agreement

The Agreement transfers certain railway rights of way which have been abandoned by CP and CN from the federal government to the Province.

B. GENERAL DEVELOPMENT AGREEMENT

The Department of Federal and Intergovernmental Affairs is charged with primary responsibility for the provincial administration of the 1974 General Development Agreement (GDA) between the Government of Alberta and the Government of Canada. This General Development Agreement, administered federally by the Department of Regional Economic Expansion (DREE), provides a mechanism for the implementation of joint programs designed to meet specific provincial development objectives. These include: improving opportunities for productive employment in relatively less well-developed areas or economic sectors of Alberta; promoting balanced development within the Province; and generally reinforcing Alberta's social and economic development priorities.

The DREE General Development Agreement provides the general framework within which subsidiary agreements implementing specific shared-cost programs can be developed. It sets out certain basic principles for cooperative planning and implementation of measures designed to identify and pursue development opportunities within the Province. These principles are as follows:

1) Alberta has primary responsibility for the determination of goals and objectives of DREE/GDA programs in the Province;
2) Alberta has primary responsibility for the administration and implementation of programs under the GDA; and
3) the GDA programs must be flexible both in content and in application to ensure that they will be responsive to changing conditions and requirements.

Programs are implemented under the General Development Agreement through subsidiary agreements. These separate federal-provincial agreements are signed under the aegis of the GDA for the purpose of implementing a program of activities designed to realize certain provincial social and economic objectives. The Department of Federal and Intergovernmental Affairs coordinates the actions of all provincial departments which have been assigned responsibility for program implementation.

There were two subsidiary agreements in effect during the 1981-82 reporting period, both of which are cost-shared on a 50/50 basis between the provincial and federal governments. These agreements are as follows:

1) ALBERTA NORTH - This five-year Agreement, effective from April 1, 1977, to March 31, 1982, funded a series of projects designed to encourage participation of Northern Alberta residents in local development opportunities. Up to $55 million was available for projects under the Agreement. The Alberta North Agreement was under renegotiation during the reporting period.

2) NUTRITIVE PROCESSING - Originally signed in March 1975, and renewed for a further 5 years in August 1981, this Agreement provides $28 million for a shared-cost industrial incentive program designed to assist in the establishment, expansion or modernization of nutritive processing facilities in rural communities of Alberta.

X INTERNATIONAL AFFAIRS

The Department of Federal and Intergovernmental Affairs is responsible for the coordination of international activities of the Government of Alberta. The importance of international activity has increased in recent years. In particular, the key role which energy plays in the Alberta economy has made the monitoring of international developments in the energy field of prime importance. The significant contribution which energy, agricultural and manufacturing exports make to the Alberta economy has meant that international trade is also an important area of concern. Moreover, the goal of diversifying and further developing the province's economic base of production has made the attraction of new investment and technology a key objective of Alberta's international dealings. There is also a growing interest in scientific and educational exchanges involving both the acquisition of new expertise and a sharing of that which Alberta possesses. However, trade, investment and technology are not the province's only international concerns. The ethnic diversity of the population and the lively multicultural mosaic it has produced have resulted in international cultural activities also forming an important part of Alberta's international orientation.

A. ALBERTA'S INTERNATIONAL AFFAIRS

The Government of Alberta maintains offices in London, Hong Kong, Tokyo, Los Angeles and Houston. The Department of Federal and Intergovernmental Affairs is responsible for the London and Hong Kong offices, both of which are headed by an Agent General. The Agents General during the reporting period were James H. McKibben in London, and Herbert K. Pickering in Hong Kong. The Department is also responsible for the Tokyo office which is headed by a Director. The Los Angeles and Houston offices, both headed by Directors, are the responsibility of the Department of Economic Development. The Houston office was opened during the reporting period. The intention to open an office in New York in 1982 was also announced. In February, 1982, it was announced that Fred Peacock would be the new Agent General in Hong Kong, effective April 1, 1982, and that James Seymour would be Alberta's Agent General in New York.

Alberta's international offices function as an effective vehicle for the distribution and collection of information on trade, investment, energy, tourism, immigration, cultural and educational exchanges, and other matters of interest to the province. The offices also provide assistance to both the government and private sectors pursuing activities in these areas of interest.

London

Alberta House was relocated to a new, more accessible site at 1 Mount Street, Berkeley Square. The move to these larger quarters reflects the increasing activities of the office. An official opening attended by the Minister of Federal and Intergovernmental Affairs, the Honourable Dick Johnston, was held on November 17, 1981.

During 1981 Alberta House in London was instrumental in presenting to British parliamentarians Alberta's point of view on the patriation of Canada's constitution. As the province responsible for coordinating provincial opposition to the original federal patriation scheme, Alberta, through Alberta House, took the lead in coordinating the efforts of other provincial offices in London whose governments were also opposed to that measure.

In 1981-82, Alberta House assisted in a number of visits to Europe by delegations from Alberta, such as the mission by the Legislative Assembly Select Committee on Surface Rights to the United Kingdom, the Netherlands, and Federal Republic of Germany. The Select Committee, in undertaking a review of Alberta surface rights policies, sought to examine comparative legislation and policies regarding land acquisition and reclamation. In addition, the Honourable Jim Horsman, Minister of Advanced Education and Manpower, visited the United Kingdom in January, 1982 to discuss a variety of issues with his British counterparts, and to present a grant to the Foundation for Canadian Studies in the United Kingdom, in support of Canadian studies centres in that country.

Alberta House also assisted in the promotion surrounding the successful Alberta showing at the English Royal, Highland and Royal Welsh Agriculture Shows in 1981.

Hong Kong

The Alberta office in Hong Kong completed its first full year of operation in March, 1982. As Alberta's senior office in Asia, it is responsible for pursuing market opportunities in the region and advising the Alberta Government of trade, agricultural, economic, technological and cultural developments in the Asian Pacific Rim. The office was particularly active in generating a large number of useful contacts for Alberta and in laying the groundwork for an increased Alberta presence in the region. The office was also instrumental in arranging the activities leading to the formalization of the special relationship between Alberta and the Chinese province of Heilongjiang and in the visit to Canada and Alberta by the Governor of Heilongjiang, Mr. Chen Lei, in September, 1981.

Tokyo

Alberta's Tokyo office, established in 1970, is responsible for pursuing Alberta's trade, investment and cultural interests in Japan and Korea. During 1981-82, the office continued to play an active role in the special relationship between Alberta and the northern Japanese prefecture of Hokkaido. It also assisted in the visits to Japan of the Honourable Merv Leitch, Minister of Energy and Natural Resources, the Honourable Hugh Planche, Minister of Economic Development, and the Honourable J.A. Adair, Minister of Tourism and Small Business, as well as a number of missions to and from Alberta in the agricultural, energy and economic development sectors.

Los Angeles

The Los Angeles office's primary function is to promote Alberta exports to the western United States and to encourage investment in Alberta by way of capital flow, licensing arrangements and joint ventures. Its secondary function is to promote tourism in Alberta and to assist Alberta and the western United States in developing all aspects of their relationship. The office is headed by a director from the Department of Economic Development and has been in operation since 1962.

Houston

Alberta's Houston office was officially opened in February, 1982 in order to represent the province's commercial interests in what is one of the world's major oil centres. For many years, Alberta and Texas have been linked through their mutual involvement in the oil and gas industry. The Houston office works to strengthen these and other links with the southwestern United States, as well as to develop Alberta's business relationships with Latin America and other countries which use Houston as a purchasing centre for their oil and gas industries. The office is headed by a director from the Department of Economic Development.

B. INTERNATIONAL VISITORS TO ALBERTA

There is strong interest on the part of foreign business and governments in Alberta's trade and investment opportunities. During 1981-82, Alberta's increasing activities in the international sphere and the province's growing reputation for major resource developments, advanced research and agricultural and energy-related products stimulated interest abroad. Numerous foreign and Canadian diplomats, officials of other governments and agencies, journalists, businessmen, academics and other interested individuals and groups visited Alberta to discuss diverse topics. Tours to various parts of the province included visits to ranches, farms, agricultural processing plants, coal mines, oil and gas plants, petrochemical facilities, and oil sands, educational institutions and cultural events. These visits can be broadly categorized according to their purpose as follows:

Familiarization tours:	
- Foreign Ambassadors & Staff	36
- Canadian Ambassadors & Staff	38
- Media	36
Agriculture	58
Trade and Investment	57
Energy	29
Culture and Education	35
Other (e.g. federal-provincial relations, social services, urban affairs)	36
TOTAL	325

During 1981-82, the number of foreign visits, missions and delegations totalled 325. The breakdown, by country is listed below, with comparative figures for 1980-81.

	1981	1980-81
Japan	60	38
United States of America	39	47
Federal Republic of Germany	17	24
France	17	9
Great Britain	16	13
Australia	15	8
U.S.S.R.	11	9
Hungary	8	1
Brazil	7	3
Italy	7	1
Nigeria	6	4
Chile	6	2
New Zealand	6	7
Hong Kong	6	0
Republic of Korea	6	8
People's Republic of China	5	10
Belgium	5	5
Holland	5	3
Mexico	5	10
European Communities	4	2
Czechoslovakia	4	2
India	4	3
Switzerland	4	2
Saudi Arabia	3	6
Zambia	3	1
Finland	3	1
Pakistan	3	1
Romania	2	5
Argentina	2	5
Other	46	35
TOTAL	325	265

Among the visitors to Alberta were the Ambassadors and High Commissioners to Canada of the United States, United Kingdom, Federal Republic of Germany, the People's Republic of China, Hungary, Pakistan, Ivory Coast, Bangladesh, Belgium, Mexico, Australia, Netherlands, Zaire, Zambia, Nigeria, Greece, Israel, New Zealand, the Philippines, Portugal and Peru. The Canadian Ambassadors and High commissioners to France, Japan, Venezuela, Kuwait, Chile, Lebanon, Czechoslavakia, Hong Kong, Malaysia, Zambia, and Brazil also visited Alberta on familiarization tours, in most cases prior to taking up their postings.

C. RELATIONS WITH FOREIGN COUNTRIES

The United States

Canada's relations with the United States are the central focus of Alberta's international interests. As the province's most important trading partner, the United States purchased Alberta exports valued at over $8.3 billion during 1981. Major export commodities included natural gas, crude petroleum and petroleum products, oil and gas equipment, wood pulp, fertilizers, coal, sulphur, and a variety of agricultural products, particularly livestock and meat products.

As well as being Alberta's leading export market, the United States is a critically important investment partner. However, during the year, a growing number of differences between Canada and the United States aroused concern on both sides of the border. The year saw major efforts on the part of the United States Administration to achieve a more open international environment for trade and investment while Congress also increasingly turned its attention to these issues. Several pieces of legislation proposed in Congress calling for reciprocity in trade generated concern in Alberta, particularly those relating to the Mineral Lands Leasing Act, international trucking and agricultural trade. Alberta expressed concern that business in the province could be adversely affected by American retaliation against the Canadian federal government's energy and investment policies. In cooperation with the federal Department of External Affairs and the Canadian Embassy in Washington, Alberta continued to voice its concern about these developments and to seek, through cooperation, mutually beneficial solutions to these problems.

In addition, Alberta took a number of its own initiatives to try to improve the general climate of Canada-United States relations. Premier Lougheed visited New York and Washington on October 27-29, 1981. The Premier explained that the purpose of the visit was to obtain a greater understanding of United States concerns with regard to Canadian energy and investment policies, to discuss various aspects of those policies and, at the same time, to communicate Alberta's views with regard to the development of resources in Canada. Premier Lougheed reiterated that investment, not just from the United States, but also from other areas of the world, is still welcomed in Alberta. He also pointed to the promising prospects for risk investors in the development of resources within Alberta.

The Premier expressed his concern that no further trade obstacles be erected in the way of Canada-United States trade. This is particularly important for Alberta and Western Canada in view of their export-based economies, and of the importance of the United States market for those exports. In Alberta, many jobs are dependent upon market access for a number of products and upon continued sales of Alberta natural gas.

During the year, Alberta also participated in a variety of trade and industrial shows in the United States, promoting a wide variety of Alberta products, including livestock, farm machinery, oil and gas-field equipment and tourism.

To further enhance Alberta's representation in the United States, the decision was made to open an Alberta office in New York City in the spring of 1982. The office will be headed by an Agent General, who will be responsible for assuring that the Alberta Government is fully informed of United States energy developments as well as political, economic and financial policies.

The official opening of the Houston office took place on February 25, 1982. At the opening, the Honourable Horst A. Schmid, Minister of State for Economic Development - International Trade, addressed local officials and leaders in the energy industry. The Houston office will play an important role in identifying opportunities for Alberta's oil and gas-field equipment and service industry as well as ensuring that the major world buyers in the industry are aware of the products and expertise that Alberta has to offer.

A number of visits from the western states to Alberta, such as the visit of Montana Governor, Ted Schwinden, as well as visits from Alberta officials to these states, have helped promote closer ties between the two regions. As the current Reagan Administration moves to a more decentralized federal system and as the rapid economic development of this region continues, the importance for Alberta of maintaining and expanding these ties increases.

The Asian Pacific Rim

The nations of the Asian Pacific Rim (East Asia, Southeast Asia) and Australia are home to one-third of the world's population. Major export opportunities for Alberta are seen in the energy (coal, oil and gas-related equipment, technology and services), agriculture (farm machinery and technology, breeding stock, forage seeds, canola and fertilizers), and petrochemical sectors.

Japan is Alberta's second largest trade partner, after the United States. Major Alberta exports to Japan include coal, grains, canola and foodstuffs. There is potential for increased exports of these as well as manufactured goods (especially farm machinery and pulp and paper equipment), petrochemicals and forestry products.

During 1981-82, more missions came to Alberta from Japan than from any other country. In addition, the special relationship between Alberta and the prefecture (province) of Hokkaido has flourished. It was an important year in the relationship as over 40 visits and activities involving the two provinces took place. New areas of exchange were developed in the educational, medical, technological, academic and civic fields. Alberta was also active in pursuit of its economic interests with Japan by way of involvement in federal-provincial consultations concerning the Canada-Japan Joint Economic Committee (JEC), and by direct participation in one of its sub-committees, the Working Group on Resource Processing.

In addition to its well established grain trade with China, Alberta is interested in the development of stronger agricultural, energy and educational links. A major step in this direction was the September visit of Mr. Chen Lei, Governor of the Province of Heilongjiang, which culminated in the signing of a protocol of understanding between Alberta and Heilongjiang. Through the creation of this special relationship, increased cooperation and activity is envisaged in the areas of agriculture, technology (petroleum, petrochemical and coal), forestry, education, culture and recreation.

Other countries in the Asian Pacific Rim were also of interest to Alberta in 1981-82. For example, the Honourable Horst. A. Schmid, Minister of State for Economic Development - International Trade, led a mission to Indonesia, the Philippines and Malaysia to promote the sale of oil and gas equipment and services to those countries.

Alberta's relations with Australia during 1981-82 were highlighted by a number of important visits. Included was a visit by the Honourable Ian Medcalf, Minister of Federal Affairs for Western Australia, who held talks with Alberta ministers regarding similarities and differences in the respective federal systems of Australia and Canada. As well, areas of mutual interest in the field of energy resources were discussed during the visit to Alberta by the Honourable Ivan Gibbs, Ministers of Mines and Energy of Queensland, and the visit to five cities in Australia by Alberta's Minister of Energy and Natural Resources, the Honourable Merv Leitch.

Europe

Europe is important for Alberta as a source of investment funds and technology, as a market for coal and agricultural products, and as a potential source of partners in joint economic ventures in Alberta or third countries. Ongoing cooperation in joint scientific research projects occurs at the governmental and private sector levels with a number of European countries, such as France, Germany and Romania, particularly in the natural resources sector (e.g. heavy oil, coal).

In July 1981, Alberta welcomed Mr. Wilhelm Haferkamp, Vice-President and Commissioner for External Relations for the European Communities. His visit was aimed at strengthening economic cooperation between Alberta and Europe and provided an opportunity to discuss agricultural, investment, and trade issues, including Alberta's concerns regarding the European Communities' Common Agricultural Policy (CAP). As an instrument to support European farm prices, the CAP inhibits the export of Alberta agricultural products to Europe, affects the price paid for our products, and threatens existing and potential markets in the rest of the world. Alberta supports European efforts to reform the CAP and is working with the federal government in voicing our concerns to the European Communities.

Another important visitor to the province was the French Minister of State for Foreign Trade, His Excellency Michel Jobert. In meetings with Premier Lougheed and members of the Alberta Cabinet, Mr. Jobert discussed Alberta-France cooperation in the energy and transportation sectors.

Soviet Union

The Soviet Union continues to hold potential for Alberta as a market for the sale of petroleum-related equipment and services. Opportunities also exist in the agricultural sector. However, due to the imposition of martial law in Poland in December 1981, Canada-Soviet relations cooled, as they had following the December 1980 invasion of Afghanistan by the Soviet Union. In the brief interim in the summer of 1981 (prior to the Polish difficulties), when relations had begun to improve, the Minister of State for Economic Development - International Trade, the Honourable Horst A. Schmid, led an oil and gas related mission to the Soviet Union to investigate areas of future cooperation. In addition, agricultural missions in the beef and canola sectors were exchanged, and an oil ministry delegation visited Alberta in May, 1981. Following the invasion of Poland, private sector commercial ventures continued, despite the cooling of relations, but government-sponsored contacts of an economic, cultural or academic nature were curtailed once again.

Middle East and Africa

The Middle East countries continue to hold potential for increased Alberta exports, particularly of petroleum-related equipment and services and, on a growing scale, agricultural consulting services and food products. Alberta's interest in this area was evidenced by the Honourable Horst A. Schmid's November 1981 return visit to Bahrain and his February 1982 mission to Iraq. Alberta's relations with Israel were also intensified during this period through a visit to that country by the Honourable Stewart McCrae in November 1981.

Increasingly, efforts are also being made to broaden the nature of our relations with Middle Eastern countries. In addition to the pursuit of trade opportunities, for example, the above-noted missions visited the universities in Jerusalem and Baghdad and donated copies of the Heritage Resources Learning Library, consisting of 30 volumes on the history, geography and literature of Alberta, to these institutions. Israel is also of interest as a possible partner for the exchange of techology in such areas as irrigation and many fields of medicine.

Alberta's interest in the majority of African countries remains at the exploratory stage, but initial contacts are being pursued and it is likely that both trade and other activities will increase in future years. This is particularly true for the oil-producing African nations, such as Nigeria. The Alberta Oil Sands Technology and Research Authority (AOSTRA), for example, has been examining possibilities for cooperation in various oil-related research fields with the Nigerian National Petroleum Corporation Research Agency. Government missions to Nigeria, as well as to Zambia, Kenya, Zimbabwe and Tanzania, to assess consulting, investment, agricultural, and trade opportunities, and to follow up on initiatives developed through earlier contacts, have broadened the scope of Alberta's future economic relations with Africa.

Latin America

Among the Latin American countries, Mexico is of particular significance to Alberta. With the development of Mexico's petroleum industry, a large potential market has developed for Alberta's oil and gas technology, services and equipment. In addition, the traditional market remains for agricultural goods and technology, such as livestock and livestock genetics. Mexico, in return, exports winter vegetables and fruit to Alberta. A ministerial mission to Expo Mexico '81 resulted in sales and the develoment of contacts for a number of Alberta firms in the oil and gas equipment and services sector, and provided an opportunity for the Honourable Horst A. Schmid to meet with Mexican government energy officials.

Venezuela also represents an important potential market for Alberta goods and services. In addition, the Alberta Oil Sands Technology and Resarch Authority has a cooperative arrangement with a Venezuelan research organization which is active in the development of new technology for the recovery of heavy oil and bitumen. This dimension of Alberta's relations with Venezuela contributed to Alberta's active participation in the second United Nations Institute for Training and Research (UNITAR) conference on heavy oil and oil sands, held in Caracas in February, 1982. Edmonton was the site of the first UNITAR conference on this subject, and the 1982 conference was again jointly sponsored by AOSTRA, the United States Department of Energy, and Petroleos de Venezuela. The Honourable Julian Koziak led the Alberta delegation to this important conference.

The year 1981-82 also saw an expansion of Alberta's relations with Argentina. The Honourable Horst A. Schmid led a successful trade mission to that country in June 1981 and numerous trade opportunities were identified, particularly in the field of agriculture and petroleum equipment and services. AOSTRA was also represented on this mission, and a letter of understanding was signed with the national oil company (Yacimientos Petroliferos Fiscales) for cooperation through the exchange of technology.

D. INTERNATIONAL ECONOMIC ACTIVITIES

During 1981-82, a variety of international events led to an increase in activity related to trade policy and trade relations issues. Events affecting Canada included: the Ottawa Economic Summit, a major ministerial meeting of the Organization for Economic Cooperation and Development (OECD), and United States initiatives related to solving its perceived trade problems with the European Community and Japan and to its concerns with Canadian energy and investment policies. The proposed initiation of a new round of multilateral trade negotiations, the state of Canada's bilateral economic relations, and the increased recognition of the potential impact on Alberta of activities of international organizations resulted in considerable effort being expended by the province in the international economic relations field.

During the last year, regular federal-provincial consultations on trade policy and export development activities began. Increased attention to these consultative mechanisms provided an opportunity to present Alberta's views on trade development and to influence the development of Canadian trade policy.

Focussing on specific bilateral economic relations, the province has continued its participation in both federal-provincial and international meetings dealing with cooperative activities involving Canada and other countries. In particular, success was achieved with regard to the Resource Processing Working Group established under the Canada-Japan Economic Framework. At Alberta's urging, the Working Group agreed to focus on the priority sector of petrochemicals and this effort, combined with Alberta's independent initiatives, should contribute to foreign awareness of opportunities for investment in the petrochemical industry in Alberta.

During 1981, Alberta began to participate in the formulation of federal export development plans for a number of countries. Mexico was the first country reviewed. It is felt that these plans, developed and implemented by the federal government in cooperation with the provinces, will allow for effective development of markets for Alberta and Canadian products and services in priority trading areas.

Alberta's activities in various international organizations also increased. The province, through the Alberta Oil Sands Technology and Research Authority (AOSTSRA), participated, as a member of the Canadian delegation, at the United Nations Conference on New and Renewable Sources of Energy, held in Nairobi, Kenya. Alberta also participated on a number of Organization for Economic Cooperation and Development (OECD) Committees in such areas as education, manpower, and science and research policy. Provincial involvement in matters related to the International Energy Agency continued. Alberta feels that, given its role as owner and manager of its energy resources, the province must play a significant role in the development of Canadian positions for international energy discussions.

E. INTERNATIONAL CULTURAL, SCIENTIFIC AND EDUCATIONAL ACTIVITIES

International cultural, scientific and educational activities are an important part of any relationship with other countries. They provide a valuable means to increase contact and improve understanding between peoples, to stimulate new ideas through interchange, to promote the development of our own artists, scientists and teachers, and to further trade and other economic goals of the province. Alberta acts both directly, by sending artists and exhibitions abroad, and in concert with the federal government.

Alberta, through its participation in Canada's bilateral cultural and scientific agreements with the United Kingdom, France, Belguim, Germany, the Netherlands, Japan and Mexico, has expanded its contacts with these countries through exchanges of information, materials, and personnel in the areas of research and development, culture sports and recreation, and education.

Alberta continues to participate with other provinces in talks with the federal government to establish a coordinated approach to the conduct of Canada's international cultural and educational relations abroad.

In 1981, the Alberta Art Foundation assembled a collection of recent prints and lithographs by Alberta artists for display at the official opening of the new Alberta House in London. As well, the Glenbow Museum,'s "Images of Reality" exhibition on the Blackfoot Indians continued its tour of Germany, the United Kingdom and Scandinavia.

In the area of scientific exchange, the international activities of the Alberta Oil Sands Technology and Research Authority (AOSTRA) have expanded over the past year. Cooperative arrangements for the development of technology in the fields of oil sands, heavy oil and enhanced recovery have been pursued with a number of countries. These efforts bring benefits both to Alberta and the other country involved as they help to solve common technological problems, reduce costs through joint efforts, expand the available pool of expertise, and assist in the marketing of petroleum-related technology. AOSTRA also provides free analysis and testing services for those countries which have hydrocarbon deposits similar to those in Alberta. This testing could provide the initial impetus required to achieve commercial production, thereby helping to alleviate some of the energy concerns of several developing countries.

F. INTERNATIONAL ASSISTANCE

During 1981-82, the Alberta International Development Agency continued its program of matching funds raised in the province by non-governmental organizations involved in a variety of development assistance projects in development countries. Total funding amounted to approximately $7 million. Examples of the types of projects supported included health and medical services, agricultural and small industry development, vocational training, literacy campaigns, water provision, refugee assistance, and community development. As well, a special contribution of $50,000 was made to the Canadian Red Cross to provide emergency relief and assistance to the people of Poland.

G. CONVENTION ON THE ELIMINATION OF ALL FORMS OF DISCRIMINATION AGAINST WOMEN

Canada ratified the Convention on the Elimination of All Forms of Discrimination Against Women on December 10, 1981. This Convention commits Canada to establish legal protection of the rights of women on an equal basis with men and to ensure effective protection of women against discrimination. The Department of Federal and Intergovernmental Affairs participated during the 1981-82 fiscal year in the provincial review and approval process which led to Alberta's approval of the ratification of the Convention by the federal government.

H. SUMMARY

In summary, the reporting period was a time of major challenges as well as opportunities for Alberta in its international relations and activities. Of critical concern during the year was Alberta's role in coordinating provincial opposition to the original federal constitutional patriation scheme, which included the presentation of the provinces' point of view on the issue to British parliamentarians in London. The success of that effort contributed to the resolution of the issue in Canada.

The growing importance of trade to the Alberta economy was reflected in expanded efforts in promoting the province's international interests both abroad and vis-a-vis Ottawa. Growing protectionist pressures throughout the world were monitored, and Alberta's support for the maintenance of an open trading and investment environment was expressed to domestic and foreign policy makers.

Continued strong international interest in Alberta and its trade and investment opportunities was demonstrated by the number and level of visits to the province by foreign and Canadian diplomats, officials of foreign government and agencies, businessmen, academics and other interested individuals and groups. This interest was mirrored by numerous Alberta governmental and private sector visits and missions abroad and the activity of Alberta's foreign offices. Particular attention was paid to developments in and relations with the United States, highlighted by a visit by Premier Lougheed to Washington, D.C., where he outlined Alberta's views on a number of Canadian-American issues in the areas of energy, trade and investment.

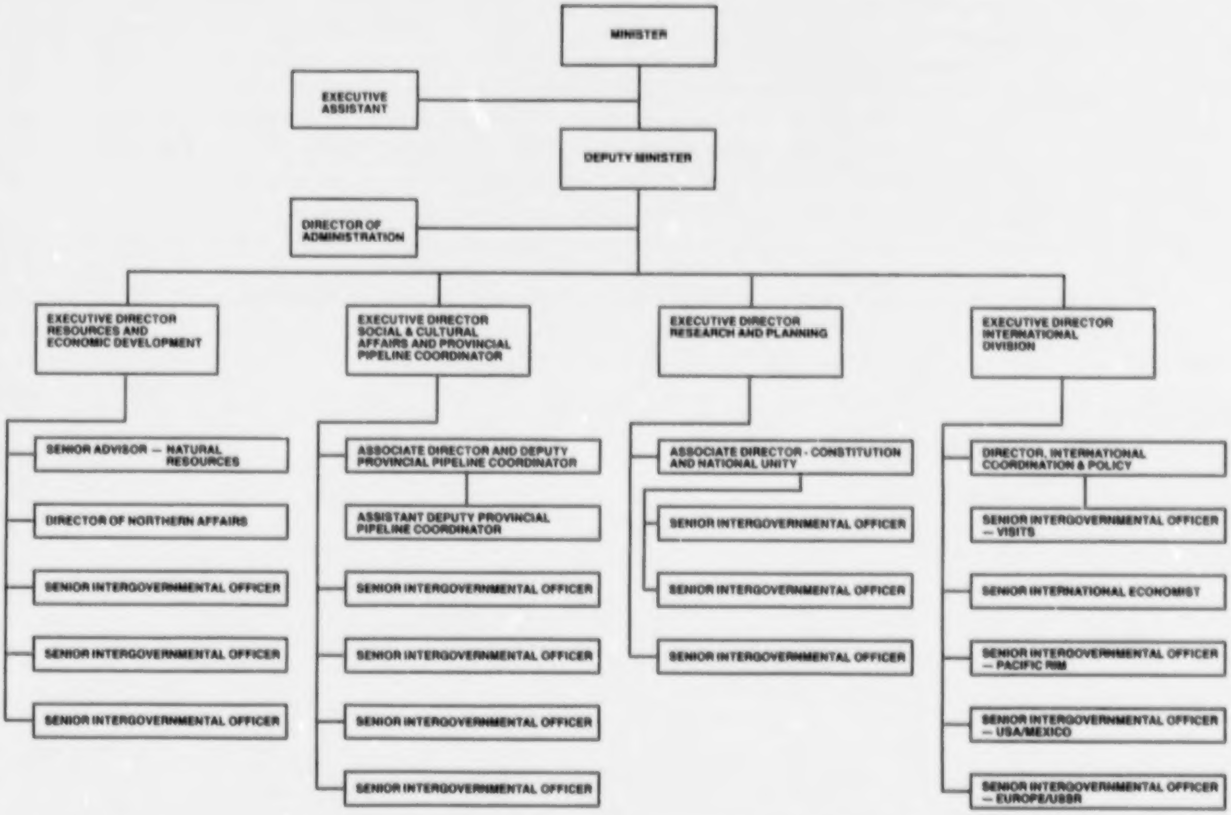
XI SUMMARY

From Alberta's perspective, 1981-82 was a period of significant accomplishments in federal-provincial relations, with the signing of the energy agreement and the achievement of patriation. Nevertheless, it must be recognized that these agreements do not solve many of the fundamental problems facing Canada today. Regional alienation continues to exist, as Canadians from various regions and provinces perceive that their interests are not adequately represented in Canada's national institutions. The difficult issue of financing the Canadian federation remains to be resolved. The question of joint federal and provincial participation in economic decision-making still needs to be addressed in a satisfactory way.

With the patriation of the constitution and the adoption of an amending formula which is flexible, yet which protects the vital interests of provinces, Canada now has an agreed upon mechanism for making future changes to the federal system. In addition, many intergovernmental problems can be solved through less formal procedures such as agreements or administrative arrangements. Federal-provincial cooperative activities in the elimination of duplication of services between the federal and provincial governments, for example, can go a long way towards modifying the operation of the federal system and making the system more efficient and responsive to public needs. The challenge before Canadians is to work towards a stronger federalism which will enable all parts of Canada to reach their full potential.

APPENDIX I

ORGANIZATION CHART OF DEPARTMENT
MARCH 31, 1982


MINISTER
EXECUTIVE ASSISTANT
DEPUTY MINISTER
DIRECTOR OF ADMINISTRATION
EXECUTIVE DIRECTOR RESOURCES AND ECONOMIC DEVELOPMENT
EXECUTIVE DIRECTOR SOCIAL & CULTURAL AFFAIRS AND PROVINCIAL PIPELINE COORDINATOR
EXECUTIVE DIRECTOR RESEARCH AND PLANNING
EXECUTIVE DIRECTOR INTERNATIONAL DIVISION
SENIOR ADVISOR — NATURAL RESOURCES
DIRECTOR OF NORTHERN AFFAIRS
SENIOR INTERGOVERNMENTAL OFFICER
SENIOR INTERGOVERNMENTAL OFFICER
SENIOR INTERGOVERNMENTAL OFFICER
ASSOCIATE DIRECTOR AND DEPUTY PROVINCIAL PIPELINE COORDINATOR
ASSISTANT DEPUTY PROVINCIAL PIPELINE COORDINATOR
SENIOR INTERGOVERNMENTAL OFFICER
SENIOR INTERGOVERNMENTAL OFFICER
SENIOR INTERGOVERNMENTAL OFFICER
SENIOR INTERGOVERNMENTAL OFFICER
ASSOCIATE DIRECTOR - CONSTITUTION AND NATIONAL UNITY
SENIOR INTERGOVERNMENTAL OFFICER
SENIOR INTERGOVERNMENTAL OFFICER
SENIOR INTERGOVERNMENTAL OFFICER
DIRECTOR, INTERNATIONAL COORDINATION & POLICY
SENIOR INTERGOVERNMENTAL OFFICER — VISITS
SENIOR INTERNATIONAL ECONOMIST
SENIOR INTERGOVERNMENTAL OFFICER — PACIFIC RIM
SENIOR INTERGOVERNMENTAL OFFICER — USA/MEXICO
SENIOR INTERGOVERNMENTAL OFFICER — EUROPE/USSR

ISSUE AREAS

REGIONAL ECONOMIC DEVELOPMENT (DREE)
TRANSPORTATION
COMMUNICATIONS
AGRICULTURE
ENVIRONMENT
ENERGY
ENERGY CONSERVATION
RENEWABLE RESOURCES
ECONOMIC DEVELOPMENT
TOURISM & SMALL BUSINESS
DISASTER SERVICES
CONSUMER AND CORPORATE AFFAIRS
NORTHERN AFFAIRS
DEPARTMENT OF NATIONAL DEFENSE
METRIC CONVERSION

ISSUE AREAS

MANPOWER AND IMMIGRATION
LABOUR
HUMAN RIGHTS
HEALTH, SAFETY AND COMPENSATION
CULTURE
LOTTERIES
STATUS OF WOMEN
HOSPITALS & MEDICAL CARE
SOCIAL SERVICES & COMMUNITY HEALTH
PIPELINE
NATIVES
URBAN DEVELOPMENT ON RESERVES
HOUSING AND PUBLIC WORKS
MUNICIPAL AFFAIRS
RECREATION & PARKS
BANFF & JASPER TOWNSITE ISSUES
JUSTICE
EDUCATION
SCIENCE & TECHNOLOGY

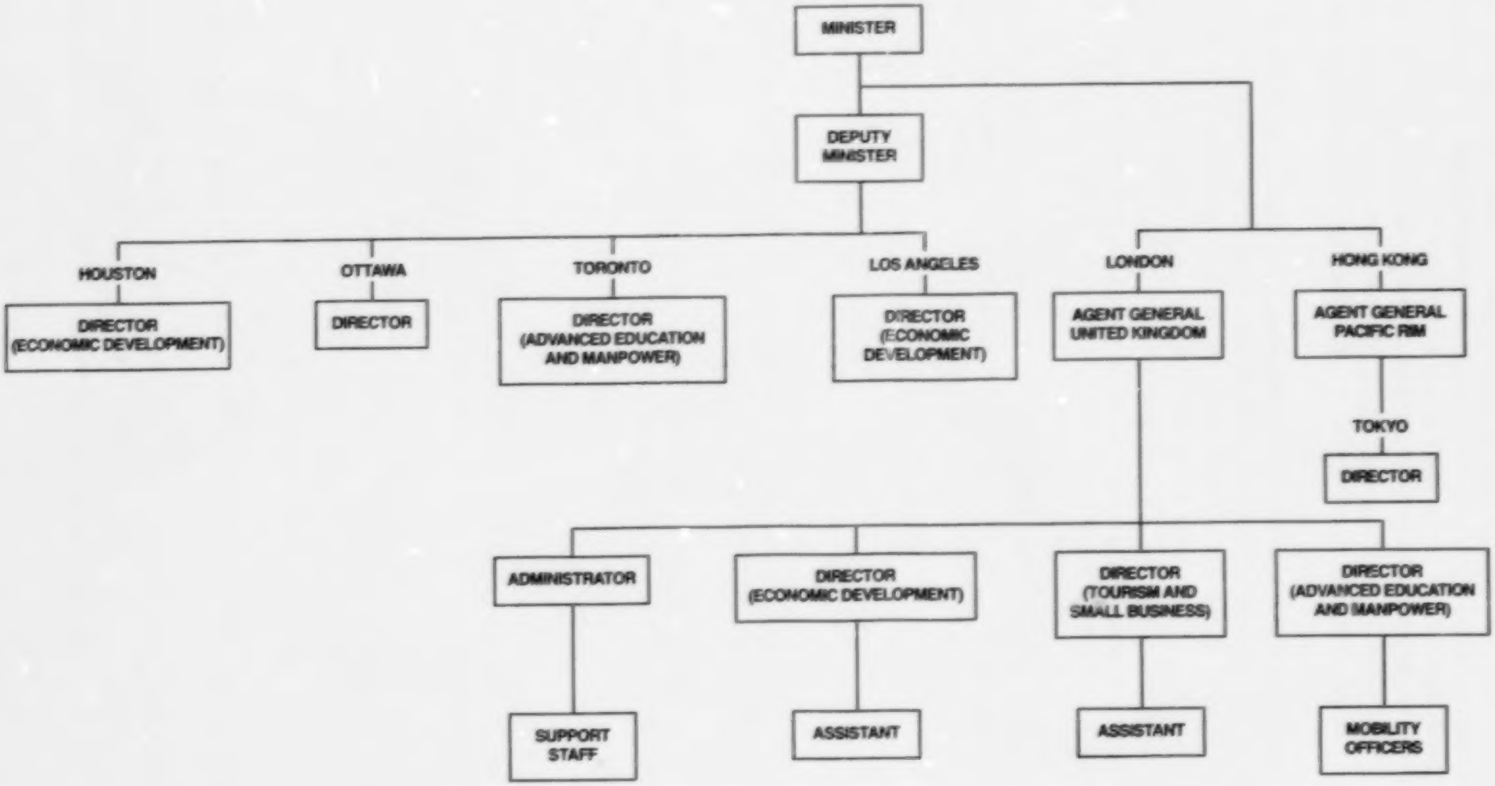
ISSUE AREAS

CONSTITUTIONAL AFFAIRS
FEDERALISM (INSTITUTIONS RELATED THERETO)
FISCAL RELATIONS
RESEARCH
SPECIAL PROJECTS
PLANNING

ISSUE AREAS

ASSESSMENT OF INTERNATIONAL EVENTS
INTERNATIONAL POLICY INITIATIVES
ADHERENCE TO CANADIAN FOREIGN POLICY
INPUT TO CANADA'S INTERNATIONAL
ECONOMIC & CULTURAL CONSULTATIONS
INTERNATIONAL VISITS & MISSIONS
ALBERTA'S FOREIGN OFFICES
SPECIAL RELATIONSHIPS
EXTERNAL AFFAIRS LIAISON
PROVINCIAL TRADE STRATEGIES
INTERNATIONAL LEGAL MATTERS

OUT OF PROVINCE OFFICES
MARCH 31, 1982


MINISTER
DEPUTY MINISTER
HOUSTON
DIRECTOR (ECONOMIC DEVELOPMENT)
OTTAWA
DIRECTOR
TORONTO
DIRECTOR (ADVANCED EDUCATION AND MANPOWER)
LOS ANGELES
DIRECTOR (ECONOMIC DEVELOPMENT)
LONDON
AGENT GENERAL UNITED KINGDOM
HONG KONG
AGENT GENERAL PACIFIC RIM
TOKYO
DIRECTOR
ADMINISTRATOR
DIRECTOR (ECONOMIC DEVELOPMENT)
DIRECTOR (TOURISM AND SMALL BUSINESS)
DIRECTOR (ADVANCED EDUCATION AND MANPOWER)
SUPPORT STAFF
ASSISTANT
ASSISTANT
MOBILITY OFFICERS

APPENDIX II

THE TWENTY-SECOND ANNUAL PREMIERS CONFERENCE
VICTORIA, BRITISH COLUMBIA
AUGUST 11-15, 1981

Communique No. 1 Review of the Economy

I. Introduction

Provincial Premiers, meeting in Victoria at their 22nd Annual Conference, agreed unanimously that dealing with Canada's current economic problems is a matter of urgent priority. They called on the federal government to work with the provinces to develop an economic strategy for Canada and to resolve the crisis in confidence which has beset the country.

The Premiers were critical of the lack of federal economic leadership and noted the frustration felt by Canadians at the state of economic drift in the country. People are concerned about their jobs, their homes and their businesses, and Ottawa's misdirection of the economy is a major contributing factor.

II. The Economic Situation

In their discussion of the current economic situation, the Premiers expressed deep concern with the crushing burden of high interest rates, the unacceptably high rate of inflation and the weakness of the Canadian dollar.

The pressure on the dollar, they said, reflects a lack of international confidence in the management of the Canadian economy. The Premiers referred to a number of causes of this confidence crisis, including:

- the lack of a federal-provincial accord on energy pricing;
- the National Energy Program, which has created significant uncertainty and anxiety in the international community, as well as holding back a number of major energy projects;
- federal-provincial discord over the constitution;
- the large federal deficit;
- uncertainty over federal intentions with regard to regulation of industries and the economy; and
- a negative federal attitude towards investment which discourages the capital needed to further investment in the country.

In addition, the Premiers noted the obvious inconsistencies between key economic commitments undertaken by the Prime Minister at the last two economic summits in Montebello and Venice, and the policies his government has chosen to implement in the wake of those commitments — particularly those related to energy pricing and to fiscal restraint.

The Premiers stressed that measures to strengthen the balance of payments and the value of the dollar are fundamental to a "made-in-Canada" economic policy. They noted, in particular, that high interest rates and the excessive rate of inflation would be brought down if the strength of the dollar was restored.

The Premiers also cited skilled labour shortages and an inadequate transportation system as important constraints to economic growth and increased productivity in Canada.

Productivity growth, they said, is fundamentally important to restoring the country's economic performance. In addition to improving the competitiveness of Canadian industries, productivity growth represents the only way to provide people with increased incomes without increased inflation. Economic policy must be oriented towards encouraging Canada's potentially strongest and most competitive industries. Premiers agreed that this requires a generally positive and supportive role by government to encourage much-needed investment, innovation and research in Canada.

The Premiers referred to the economic situation as unacceptable and totally unnecessary. They agreed that wage and price controls were not appropriate responses to the current situation. There are however a number of positive and constructive steps that federal and provincial governments acting in concert might take immediately.

III. A Program for Canadian Economic Recovery

Emphasizing the need to renew confidence in the Canadian economy, both domestically and internationally, the Premiers agree that a Canadian recovery plan embracing the following elements should be initiated immediately and that this plan must be a joint federal-provincial undertaking:

1. The conclusion of a fair and equitable energy agreement. Such an agreement would
    - (a) signal a fundamental change in the climate for productive investment in the country;
    - (b) stimulate major resource development projects (for example, oil sands, heavy oil and alternative energy projects) with their consequent contribution to employment in the manufacturing industries of Canada; and
    - (c) provide an immediate contribution to strengthen the dollar, and lower interest rates.
2. A realistic Canadian approach to the export of commodities, such as coal and natural gas, must be adopted. This strategy would improve Canada's balance of payments position and would serve to strengthen the Canadian dollar.
3. The competitiveness and productivity of Canadian industry must be improved through special measures to encourage investment and innovation. In addition, public policy must place greater emphasis on Research and Development.
4. The fundamental role of investment in any recovery plan must be a major part of Canadian public policy.
5. The Canadian transportation system must be strengthened to improve access to the national and international marketplace for Canadian products. Premiers noted that every province has particular and unique development opportunities which are constrained by the lack of an adequate transportation system.
6. The pace and scale of efforts to increase the level of Canadian ownership must be carefully considered so as not to undermine other measures taken to inspire investor confidence.
7. Strong regional economies are necessary to have a strong national economy. But Premiers noted the growing tendency of the federal government to favour a unilateral approach to solving regional disparity. Where federal government participation in the development of a provincial resource is desirable, it must be with the joint agreement of the province.
8. Government deficits on current account must be controlled. The Premiers firmly rejected any suggestion that the federal deficit be reduced by shifting expenditure obligations to the provinces. The Premiers noted that this would be of no benefit to the taxpayers of Canada.
9. Canada must build on its strengths — its people and its natural resources. Economic recovery planning must include a commitment to maximize resource upgrading and further develop the skills of the labor force.

The Premiers emphasized that these policy directives are wholly consistent with the economic objectives agreed to by all eleven First Ministers at their two productive conferences on the economy in February and November 1978. The Premiers reaffirmed the comprehensive positions they had adopted at those conferences and stressed their value as a base for cooperative economic policy development. In particular, the Premiers underscored the importance of reaffirming the vital role the private sector must play in the recovery process.

Premiers believe that the positive effect of implementing these measures will provide renewed confidence in the strength of the Canadian economy.

IV. Restoring Federal-Provincial Consultation

The Premiers noted that they have repeatedly called for cooperative federal-provincial approaches to economic policy. Noting that three years will have elapsed since the First Ministers last met to develop joint solutions to Canada's economic problems, the Premiers recalled that at their 1978 Conference in Regina, it was agreed that First Ministers should meet on an annual basis at a fixed time to ensure the development and implementation of a national economic strategy. The Premiers' are therefore pleased with the federal response for such a Conference.

The Premiers called for a First Ministers Conference to be scheduled immediately following the preparatory Meeting of Ministers of Finance.

The Chairman of the Premiers Conference has been requested to communicate with the Prime Minister in order to jointly develop the preparatory work and arrangements required to ensure a successful First Ministers' Conference.

The Premiers further noted that integral to this process is a commitment to a positive consultative approach to the economy. They observed that the current climate is such as to render exceedingly difficult such co-operation, and that the past year has seen a level of tension unprecedented in federal-provincial relations. Moreover, the Premiers observed with regret certain indications that the level of tension might, indeed, intensify as a result of initiatives surrounding Fiscal Arrangements, federal industrial strategy and natural resources, including off-shore resources.

Given a new spirit of federal-provincial consultation and cooperation and Canada's underlying economic strengths, the Premiers are confident that policies can be jointly developed which will revitalize the economy and permit Canada to realize its full potential.

Communique No. 2 Federal-Provincial Fiscal Arrangements

In considering the upcoming negotiations concerning Federal-Provincial fiscal arrangements, the Premiers reiterated their concerns about the federal government's announced intention to cut back its financing of health and education programs and about its failure to present concrete proposals to the provinces. Provincial governments are now beginning budget preparations for 1982/83 without negotiations having even commenced.

Equalization

The Premiers agreed that a strong equalization program must remain a key element in federal-provincial fiscal arrangements.

Equalization enables provinces to provide comparable levels of public services without having to resort to unduly burdensome levels of taxation.

The Premiers agreed that a representative tax system for calculating equalization payments is the most appropriate system. The Premiers did, however, identify and discuss a number of issues that have emerged within the existing system, which have resulted in a number of ad hoc changes introduced by the federal government in recent years.

The Premiers unanimously agreed that attempts should be made to resolve these issues and avoid the future need for ad hoc measures. It was stressed that reductions in payments to recipient provinces would be unacceptable since such measures would lead to increases in fiscal disparities.

Established Programs Financing Arrangements

The Premiers agreed that Established Programs Financing (E.P.F.) has been an important factor in the high standard of health care and post-secondary education enjoyed by Canadians. Central to the discussions held by Premiers was the federal government's announced intention to reduce funding for these vital services in order to accommodate new priorities and reduce the federal deficit. Premiers concluded that such cuts were not justifiable and, therefore, unacceptable.

On Wednesday, the Premiers released a report on E.P.F. prepared by provincial Finance Ministers and Treasurers. The report concludes that E.P.F. has not been a significant source of federal expenditure pressure and that the program has been a highly successful part of federal-provincial funding arrangements over the past five years. The provinces have maintained high standards of service in health and education programs and have maintained their share of expenditures in these areas.

The Premiers stressed the need to maintain these high levels of services, the costs of which are expected to escalate considerably in the years ahead.

They suggested that proposed federal cutbacks are misguided and would merely shift the burden of the federal deficit onto provincial governments and taxpayers. If the federal government proceeds with its plans for funding cuts, program standards in some provinces could suffer and the ultimate burden on the Canadian taxpayer would not be reduced.

The Premiers called on the federal government to begin at once to work in cooperation with the provinces to build on, and improve, the current program. They urged that the original purpose of E.P.F., to provide stable and predictable program funding, be respected.

The Premiers expressed a willingness to participate in a cooperative and constructive review of ways in which the program might be further refined to meet the health and educational needs of Canadians while respecting the role of both orders of government.

Communique No. 3 Transportation and Grain Handling

In the course of their discussions of transportation issues, all Premiers expressed serious concern about the impact of the recently announced cutbacks in VIA Rail services and the lack of consultation which preceded them. The Premiers are requesting the Prime Minister to instruct his Minister of Transport, to meet with the provincial ministers at the earliest possible opportunity to discuss VIA cutbacks.

The Premiers have directed the provincial ministers responsible for transport, who will be meeting in Winnipeg in September, to prepare plans for an early National Conference on Transportation. The Premiers believe such a conference is essential to review and coordinate plans for the improvements in all modes of transport which will be necessary to ensure our national system can accommodate the heavy demands which will be placed upon it in the years ahead.

Communique No. 4 Pensions

At their 1981 Conference in Victoria the Provincial Premiers agreed to co-operate on a joint study of options for improving the retirement income system, with emphasis on pension reform.

In June 1981, the provincial Finance Ministers formed a working group to study pensions. The Finance Ministers' progress report to the Twenty-Second Annual Premiers' Conference recommended that the study be broadened to include other aspects relating to retirement income with primary emphasis on a provincial analysis of options for reforming public and private pension programs.

The Premiers directed their Finance Ministers to first examine the financing of the current benefits of the Canada Quebec Pension Plans and suggest approaches for reform by October, 1981. Following consideration of this report by the provinces, the Federal Government will be invited to join the review.

Communique No. 5 Education

The Premiers instructed their Ministers of Education to accelerate efforts to develop a more compatible core curriculum for the country's elementary and secondary schools and to facilitate the transfer more freely from one education system to another.

The Premiers asked their Education Ministers to make a second progress report on the extent and quality of minority language education across Canada.

The Premiers also directed their Education Ministers to look into the possibility of expanding Canadian educational publishing through the preparation and agreement on a compatible curriculum across the country.

The Council of Education Ministers will be expected to report on these matters to the Premiers' Conference in 1982.

REPORT ON THE ESTABLISHED PROGRAMS FINANCING ARRANGEMENTS

A. INTRODUCTION

Five years ago in August 1976, at their Seventeenth Annual Conference in Edmonton, Alberta, the Provincial Premiers agreed upon a strong consensus position on major improvements to be sought through renegotiation of the Federal-Provincial Fiscal Arrangements. That position statement, coupled with a detailed provincial consensus proposal which was put forward later in the year, had an extremely important, positive influence on the outcome of the negotiations with the Government of Canada and, specifically, on the revised Fiscal Arrangements legislation implemented on April 1, 1977 — legislation which remains in effect.

Now, in the face of federal threats to reduce its contribution to health care and higher education, the Provinces believe it is imperative to review, reaffirm, and where appropriate, update their earlier joint positions.

This report deals with one of the key features of the 1977 legislation, the Established Programs Financing Arrangement — that is, the current system of "block funding" for a comprehensive and growing range of health and higher education services across the country. By publishing such a report at this time, the Provinces hope, again, to contribute in a positive way to public understanding of the program and of the success of the "EPF" Arrangements in meeting the objectives set for it by the federal and provincial governments five years ago.

B. BACKGROUND

Understandably, most Canadians are unfamiliar with the intricacies of the Established Programs Financing Arrangement, but the programs it covers touch the daily lives of virtually all our citizens.

Canadians enjoy — and sometimes take for granted — a national health care system which, despite some acknowledged difficulties, is recognized as being second to none in the world. Canada can be justly proud of the quality of both our hospitals and extended care facilities and the highly-skilled and dedicated physicians, nurses and other health professionals who provide such a broad range of services.

Similarly, our country also provides consistently first-rate higher education opportunities — through our universities and a broad spectrum of technical training programs. While continuing improvements are essential, there is no doubt that our provincial post-secondary educational institutions and services ensure that Canadians will be well-equipped to meet the major economic and social challenges facing our nation in the years ahead.

Most of these programs have been financed jointly by the Government of Canada and the provinces for at least a decade and a half, and some for longer. By the time the last set of federal-provincial Fiscal Arrangements negotiations were getting underway in earnest, some five years ago in 1976, the federal government and the provinces could point to close to twenty years' experience with hospital insurance cost-sharing and nearly a decade's experience with the joint financing of medicare, post-secondary education, social assistance and social services under the Canada Assistance Plan, as well as a variety of other programs. The provinces also recalled the circumstances surrounding the introduction of a number of those programs — with the federal government using its spending power to secure provincial agreement to the programs and then shortly after imposing them, in some cases attempting to change the formulas so as to limit federal participation. The first of the open-ended programs to be capped by the federal government was the post-secondary program in 1972. This was followed by a federal announcement in 1975 that medicare would be capped the following year and that hospital insurance cost-sharing would be terminated in 1980. Of course, the provinces themselves were not fully satisfied with cost-sharing for several reasons, including rigid guidelines which distorted provincial priorities and decreased program efficiency.

In response to provincial concerns, the federal government put forward proposals for Established Programs Financing in June 1976. The general objectives of EPF as stated by the Prime Minister were:

(1) "to maintain across Canada the standards of service to the public under these major programs, and to facilitate their improvements;
(2) "to put the programs on a more stable footing so that both levels of government are better able to plan their expenditures;
(3) "to give the provinces flexibility in the use of their own funds which they have been spending in these fields;
(4) "to bring about greater equality among the provinces with regard to the amount of federal funds they receive under the programs;
(5) "to provide for continuing joint policy discussions relating to the health and post-secondary education fields".

These objectives were based on several principles, which were enumerated by the Prime Minister of Canada at the same time.

(1) "The federal government should continue to pay a substantial share of program costs:
(2) "Federal payments should be calculated independently of provincial program expenditures;
(3) "There should be greater equality in per capita terms among the provinces with regard to the amount of federal funds they receive under the programs;
(4) "The fourth principle is that the arrangements be established on a more or less permanent footing, to reduce the uncertainty that has attended in the past the question of continued federal involvement and the dimensions of federal financial contributions. The relevant federal legislation would not provide for any specific termination date. There would, however, be a provision for three years' notice to terminate the arrangements. Such notice would not be given lightly, because the intention is to underline the relative permanence and stability of the arrangements."
(5) "There should be provision for continuing federal participation with the provinces in the consideration and development of policies of national significance in the fields of health and post-secondary education."

C. CONCERN FOR THE FUTURE OF THE ESTABLISHED PROGRAMS

While the federal government has not yet presented its proposals for the 1982-87 federal-provincial fiscal arrangements, several statements by federal spokesmen have created concern that federal assistance in financing the established programs may be reduced. In view of these statements, discussions among the ten provinces of the negotiations leading to this set of fiscal arrangements have thus far concentrated on EPF.

In his October, 1980 Budget, federal Finance Minister Allan MacEachen made it clear that Ottawa may seek significant savings from its expenditures on social programs. The federal Finance Minister confirmed this intention in his brief to the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements. Referring to transfer payments to provinces for social programs, he said: "I also confirmed to the House on February 25 that, as provided in the budget projections, we expect to secure net savings of the order of $1.5 billion in 1982-83 and 1983-84."

The apparent intention of the Government of Canada to reduce its support for health care and higher education has created considerable public concern about the future availability and quality of these essential programs.

D. KEY ISSUES

1. Federal deficit

The major justification given by the federal government for a target of $1.5 billion in savings in transfers to provinces is the fact that the federal deficit, forecast at approximately $14 billion for 1981-82, must be reduced.

Transfers to the provinces have not caused the massive growth in the federal deficit. In recent years, federal transfers to the provinces have, on average, grown more slowly than federal budgetary spending. Moreover, federal budget projections show EPF transfers growing more slowly than its total expenditures, even in the absence of major cuts, at least through to 1983-84. Throughout the seventies, a series of federal government decisions, including the indexation of taxes and expenditure programs, massive tax exemptions, energy policy and interest rate policy, have had a far greater impact on its fiscal position. The Chairman of the Economic Council of Canada has stated that the federal government has already taken major unilateral steps, primarily through its energy proposals, to reduce its deficit.

Clearly, action to deal with the federal deficit should not shift the tax burden to provinces and municipalities because the same taxpayers support all levels of government. If the federal government reduces its transfers to provinces for health care and higher education, provincial tax burdens would increase.

2. Funding Shares and Contributions

When the block-funding arrangement was proposed by the federal government in 1976, stable and predictable transfers for health and post-secondary education were primary objectives. Federal projections made in December 1976 of its total contributions for the five years of the Established Programs Financing Arrangements were extremely accurate, within two per cent of the total amounts that have been actually transferred.

The federal government has suggested that over the past four years the burden of paying for medicare, hospitals, universities and colleges has increasingly fallen upon its shoulders, further aggravating its deficit problem.

Joint provincial analysis of the costs of health and post-secondary education programs illustrates that national average federal contributions as a percentage of health and post-secondary spending did rise in the early years of EPF but never exceeded 45% of program costs. Even this analysis includes, in the federal contribution, tax revenues raised by the provinces. Most significantly, the federal share has already begun to decline and this trend is forecast to continue.

Federal Contributions as a Percentage of Health and Post-Secondary Spending

	76-77	77-78	78-79	79-80	80-81	81-82
All Provinces	39.7%	43.5%	44.3%	44.8%	43.0%	41.4%

The decline in federal contributions in recent years is of utmost concern to the provinces, considering increasing inflationary cost pressures in health and post-secondary education fields. A cutback in federal contributions is clearly unwarranted in light of recent experience and current trends.

3. Federal Program Conditions

The EPF arrangement contains broad conditions or principles which provinces must adhere to in the delivery of health care programs in order to receive federal financial support. These principles are:

- The benefits should generally cover all health care services.
- All residents of a province should be covered on uniform terms and conditions.
- There should not be undue impediments in the access to services.
- The programs must be publicly administered.
- Benefits must be portable from one province to another when people move, or are absent from, their province.

All governments agreed in 1977 that these broad principles would serve the best interests of the Canadian people. These principles would ensure that provincial health care programs would meet minimum national standards, would respect provincial jurisdiction in these areas and would enable provinces to deliver services in the most efficient and cost-effective manner.

The federal government has indicated a desire to clarify the meaning of these principles and provinces have expressed a willingness to discuss this matter. From the federal perspective, clarification of principles would facilitate and enhance accountability to Parliament and Canadian taxpayers. If these principles were clarified, governments would have a clear understanding of their respective obligations.

4. Visibility

The federal government has expressed concern that Canadians are not generally aware of its financial contribution to services. The federal government has not made any proposals to improve its visibility. Provinces are prepared to discuss the issue during the forthcoming negotiations.

5. Federal Delays in Starting Negotiations

The process for review of federal-provincial fiscal arrangements is extremely complex, requiring extensive consultation between the two orders of government. For this reason since last December provinces have been urging the federal government to begin serious negotiations as soon as possible. Especially in view of the federal intention to reduce its funding for EPF, provinces are deeply concerned that negotiations for the 1982-87 arrangements have not yet started in earnest.

Provinces are now planning their 1982-83 budgets without the benefit of any serious federal-provincial discussion of the fiscal arrangements. This major uncertainty with respect to federal funding support runs counter to one of the most important principles of federal-provincial finance — predictability and stability.

E. CONCLUSION

All provinces agree that unilateral federal cutbacks would be unacceptable and unjustified, especially in light of recent cost pressures and projected trends for the coming years. Any reduction would result in an increase in provincial tax burdens and/or a reduction in the level or quality of essential services.

Ottawa should not amend its Federal-Provincial Fiscal Arrangements and Established Programs Financing Act without submitting any modifications to the present arrangements to proper negotiation and to federal-provincial agreement. Therefore, intergovernmental negotiation must commence immediately.

MEETING OF PREMIERS
MONTREAL, QUEBEC
OCTOBER 19, 1981

Communique

The ten provincial Premiers meeting in Montreal, today called once again on the Prime Minister to deal with the economy as his number one priority and convene a First Ministers' Conference to work out concrete solutions to our economic difficulties.

The Premiers noted that they have been requesting such a meeting for the past year — most recently at their Conference in Victoria in August.

The Prime Minister's initial response appeared positive both to the call for such a meeting and to the substance of the Program for Canadian Economic Recovery put forward by the Premiers. However, they noted that, at his meeting with Premier Bennett on September 24, the Prime Minister was unwilling to set a date for a First Ministers' Conference.

The Premiers are of the view that the economy is the concern uppermost in the minds of most Canadians, most dramatically because of the crushing burden of high interest rates.

The ten provincial Premiers believe that federal-provincial co-operation is essential to the resolution of our economic problems. They referred to the two productive Conferences on the Economy held in 1978 at which time it was agreed that annual conferences of such a nature would be held every Fall.

Accordingly, the Premiers put forward the dates of December 1 and 2, or December 3 and 4 for a First Ministers' Conference. They noted that, if the Prime Minister continues to object to a public meeting on the economy, they would be prepared to compromise and hold a mix of private and public discussions. The Premiers believe that the time for joint action is now and urge the Prime Minister to embark on a common exercise in economic recovery.

Montreal, October 19, 1981

MEETING OF PREMIERS OF B.C., ALTA., SASK., MAN.,
QUE., N.S., P.E.I., NFLD.
MONTREAL, QUEBEC
OCTOBER 19, 1981

Communique

In light of the outcome of the Supreme Court of Canada decision, the Premiers, who desire a Made in Canada Constitution, restate their call for Constitutional discussion and propose that the Prime Minister convene a conference of the eleven first ministers during the first week in November.

To improve the prospects for a successful conference, the Premiers further propose an advance meeting of ministers responsible for the constitution to develop the details, format and agenda, and also to explore areas of substance where agreement may be achieved. It is suggested this advance meeting be held on any day during the week of October 26.

COMMUNIQUES FROM THE WESTERN PREMIERS' CONFERENCE
THOMPSON, MANITOBA
APRIL 28 AND 29, 1981

Communique No. 1 State of Federal-Provincial Relations

In their consideration of the state of federal-provincial relations, the four Western Premiers, meeting in Thompson, Manitoba, were united in their concern over heightened tensions in Canada, particularly the growing sense of alienation in the West.

Abandoning the spirit of co-operative federalism, Ottawa has adopted an approach of division and confrontation in its dealings with provincial governments.

The Western Premiers asserted that the federal constitutional proposal is the most visible example of this new federal government attitude and is the most flagrant denial of the spirit of Canadian federalism. The Federal Government's resolution on the constitution flouts Canadian traditions by its unilateral nature and by its encroachment upon provincial jurisdiction. The Premiers believe strongly that the basic law of Canada, its Constitution, cannot and should not be altered in the face of the overwhelming opposition which exists in every part of the country. They emphasized that the eight Premiers, in their historic meeting in Ottawa on April 16th, committed themselves to an alternate route to patriation, in accord with established conventions, which would have all amendments made in Canada by Canadians after patriation.

The Premiers continued to subscribe to the view that the best way to resolve this issue is through negotiation at the Conference Table. Referring to Premier Lyon's telex of April 27th to the Prime Minister on behalf of the eight Premiers, the Western Premiers again urged the Prime Minister to return to the negotiating table prior to the decision of the Supreme Court of Canada, to work with them, in the Canadian way and in a spirit of compromise, to find a solution to Canada's constitutional crisis.

On other issues, Premiers noted with regret the Federal Government's approach of division and confrontation in the areas of the energy field, federal-provincial fiscal arrangements and cost-sharing, and the new RCMP contract with the provinces. In these and other areas of dispute and discussion, all governments must commit themselves to a genuine search for solutions in a spirit of co-operation and goodwill.

The Premiers emphasized that Canadians want not acrimony but harmony. They want all governments to work together to resolve the many problems facing the nation today. These problems can be solved through co-operation and compromise. The mechanisms for working together exist and the four Western Premiers, for their part, reaffirmed their commitment to the spirit which will enable those mechanisms to function properly.

Communique No. 2 Western Premiers' Task Force on Constitutional Trends

Western Premiers, meeting today in Thompson, Manitoba, directed their Task Force on Constitutional Trends to continue its work on federal-provincial jurisdictional issues.

The Task Force was established in 1976 to monitor federal intrusions into areas of provincial jurisdiction. The Task Force has submitted three reports identifying areas of federal constitutional intrusion and federal-provincial friction. Until recent unilateral action by the federal government on the Constitution, the Task Force had been effective in sensitizing the federal government to western provincial concerns.

Ministers on the Task Force are the Honourable Garde Gardom, British Columbia Minister of Intergovernmental Relations, Chairman; The Honourable Dick Johnston, Alberta Minister of Federal and Intergovernmental Affairs; the Honourable Roy Romanow, Saskatchewan Minister of Intergovernmental Affairs; and The Honourable Gerald Mercier, Manitoba Attorney-General.

The Third Report was forwarded to Prime Minister Trudeau in 1979 and again last year by Premier Bennett of British Columbia on behalf of the Western Premiers. In his letter of April 22, 1980 to Prime Minister Trudeau, Premier Bennett urged the federal government to respond to the Task Force Report at an early date so that the process of federal-provincial conflict resolution and prevention set in motion by the earlier work of the Task Force could continue without delay. Little progress has been achieved since that time.

Rather, what we have seen in the past year is a heightening of federal-provincial conflict, and constitutional initiatives by the federal government which are contrary to the spirit of co-operative federalism.

The Western Premiers reaffirmed the need to continue the work of the Task Force.

Communique No. 3 The Federal-Provincial Fiscal Arrangements

The Federal-Provincial Fiscal Arrangements cover the Equalization Program, federal funding for medical care, hospitals, universities and technical schools, other extended health care programs, and the tax collection arrangements.

At the present time, as a result of arrangements introduced in 1977, the Federal Government provides money to all provinces to assist in the provision of these fundamentally important health, education and other public services.

During the last round of fiscal arrangements negotiations in 1976, a common western position was developed at the Western Premiers' Conference in Medicine Hat which had an important, positive influence on the outcome of the following interprovincial and federal-provincial discussions.

The Premiers stated that they believe the arrangements worked out and put into effect in 1977 have served Canada well and that no major changes are needed.

As was the case five years ago, the western provinces have co-operated fully in the current set of Fiscal Arrangements negotiations by working out and presenting a joint position on the Arrangements at an early stage in the negotiating process.

Since the Lethbridge Conference last year, the four provinces have worked closely together on this issue under the chairmanship of Manitoba's Finance Minister, the Honourable A. Brian Ransom and his predecessor, the Honourable Donald W. Craik, and, in December, 1980, joined in presenting a consensus western position statement on the Fiscal Arrangements to a federal-provincial Conference of Finance Ministers in Ottawa (attached). That statement emphasized that the western provinces believe "the primary objectives of all parties in the upcoming negotiations should be to build up and improve our current arrangements — not tear down the underlying financial framework of our Confederation."

Western Finance Ministers and Treasurers will be meeting shortly under the chairmanship of the Honourable Hugh Curtis, the Minister of Finance for British Columbia, to follow-up the joint work which is now underway including consideration of options for western provincial tax harmonization. Since British Columbia will be hosting the 1981 Provincial Premiers' Conference, Mr. Curtis will also be suggesting to all his provincial colleagues that B.C. convene a ten-province meeting of Finance Ministers and Treasurers in the near future to discuss the Fiscal Arrangements and prepare a report and recommendations for submission to the ten Premiers at their August Conference.

The western provinces believe that the upcoming discussions of the Fiscal Arrangements, and particularly the assessment of any proposals for modifications to them, should be guided by the following key principles:

> **(1) Stability and predictability** — Stable, predictable transfers for health and post-secondary education programming were, in 1976, a primary goal of the Established Programs Financing Arrangements for both levels of government. While that goal appeared to have been achieved, the Federal Government is now threatening to introduce significant payment reductions which could seriously disrupt health and post-secondary programming as early as next year. The Premiers noted that when th E.P.F. arrangements were proposed in 1976, the Prime Minister had emphasized that a three years' notice provision would be included ". . . because the intention is to underline the relative permanence and stability of the arrangements." Subsequently, such a provision was built into the legislation and remains in effect.

(2) Flexibility and balance — The fiscal equalization and E.P.F. programs should continue to ensure that all provinces have adequate fiscal capacity to maintain and improve the quality of key services. The western provinces stated that they are willing to explore alternative methods of program financing which may hold promise of achieving these goals, such as expanded, adequately-equalized tax transfers.

(3) Rationalization and simplification — The Fiscal Arrangements should respect the jurisdictional responsibilities of the federal and provincial governments and should avoid further overlap and duplication. At the same time, it is recognized that continuing federal financial support is essential in a number of key program fields. In this connection, the western provinces noted with concern suggestions that the Federal Government might be considering placing greater emphasis on direct, centralized program delivery in order to assert its "presence" in such fields as post-secondary education. Such an intrusion into provincial jurisdictions and resulting overlap and duplication could be extremely disruptive and damaging to programming, and could contribute to costly inefficiences which would add to the demands on the taxpayers of Canada.

The Premiers also noted that Ottawa apparently believes it may not be receiving satisfactory and adequate recognition for the contributions it is making toward the costs of certain programs. They stated that they had not yet received specific suggestions from the Government of Canada concerning the measures it would see as appropriate to provide the "visibility" which it seems to want.

(4) Clarity of responsibilities — Renewed Fiscal Arrangements should be entered into on the basis of a clear, unambiguous understanding on the part of both orders of government as to the provincial program obligations associated with the federal E.P.F. transfers. The respective obligations of both orders of government should not be open to misunderstandings or misinterpretation, thereby creating unnecessary and undesirable tension and conflict between governments.

(5) Fiscal responsibility — The western provinces believe that the Federal Government should not seek to resolve its budgetary problems by transferring substantial expenditure obligations onto provincial and local governments. They stated that the appropriate way to improve programming without excessive costs and significant added burdens for Canadian taxpayers is for Ottawa and the provinces to work closely together in developing mutually-acceptable improvements to the Fiscal Arrangements where it can be demonstrated that they are required.

(6) Co-operation and genuine federal-provincial consultation — While it is important that Parliament have a reasonable opportunity to consider and debate changes in the Fiscal Arrangements, it is also imperative that the two orders of government directly involved have adequate time for consultation and negotiation.

THE FISCAL ARRANGEMENTS: THE GENERAL CONCERNS OF THE WESTERN PROVINCES

A Consensus Statement Presented On Behalf Of
British Columbia, Alberta, Saskatchewan and Manitoba

By

HONOURABLE DONALD W. CRAIK
MINISTER OF FINANCE
GOVERNMENT OF MANITOBA

Ottawa: December 17, 1980

Mr. Chairman:

In 1976, a set of common positions on the fiscal arrangements developed by the provinces had an important and positive influence on federal-provincial negotiations that year.

With that in mind, the Western Premiers agreed . . . at their last Conference in Lethbridge this spring . . . that our four provinces should once again work together to review current fiscal arrangements issues and to determine areas in which we might, once more, be able to make a joint contribution to the next round of negotiations.

My colleagues and I have discussed these issues and I have been asked, on their behalf, to outline a number of the major concerns we share as we enter a year of intensive discussions with you and with our colleagues from the other provinces.

You may recall . . . Mr. Chairman . . . that in their joint position statement on federal-provincial financial arrangements in December, 1976, all ten provinces described these programs as "the hallmark of fiscal federalism for the past thirty years" . . . and went on to emphasize that "the results of our joint endeavours to reach a comprehensive and acceptable financial arrangement are pivotal for the future direction of Canadian federalism." I can advise you that the western provinces continue to hold these views as negotiations on revisions to these important arrangements begin once again. We believe that the primary objective of all parties in the upcoming negotiations should be to build up and improve our current arrangements — not tear down the underlying financial framework of our Confederation. For this reason, we are particularly concerned about the specific plans you and your colleagues are considering to give effect to the statement of intent, in your October 28th budget, to "achieve significant savings" in transfers to the provinces.

Mr. Chairman . . . the western provinces are aware of your government's stated concerns about the size of your budgetary deficit . . . and we are on record as sharing those concerns. Clearly, action to reduce the federal deficit is essential, but such action should not simply involve a shift in tax burdens to provinces and municipalities. It is important to emphasize that the same taxpayers support all levels of government, and federal efforts to offload obligations onto other levels will not reduce overall tax burdens.

The western provinces continue to be willing to co-operate with the Government of Canada in efforts to improve the current set of fiscal arrangements and other transfers. We want to emphasize, however, that we are reasonably satisfied with the principles underlying those arrangements as they now stand . . . although we have concerns about the continuing adequacy of future funding levels in light of inflationary pressures on health, higher education and other programs.

Our provinces do not see the need for immediate large-scale modifications to these programs and we see no justification for federal reductions. We believe the current arrangements offer both levels of government important advantages, compared to other alternatives, in terms of both flexibility and budgetary predictability.

In this connection, we note that federal budget forecasts indicate that the established programs financing transfers for health and post-secondary education, and Canada Assistance Plan transfers for social services and social assistance, would grow at a lower rate than overall federal outlays over the next three years even if no changes were made in those programs, and that equalization payments would grow at a rate which is just slightly higher. Therefore, these transfers cannot be argued to represent a more significant source of pressure on the federal budget than a wide variety of other federal expenditure obligations with a lower priority.

The western provinces are concerned that federal proposals for restructuring fiscal arrangements with the provinces may be motivated not by a desire to improve program quality but by a desire to increase the intrusions of the federal government in other areas of provincial affairs.

Only fifteen months remain before the current set of fiscal arrangements expire. For this reason . . . the western provinces believe it is essential that the federal government clarify its intentions by tabling any specific program modification proposals it may have as soon as possible . . . and by giving all provinces a commitment that it is prepared to engage in genuine consultation in an attempt to prevent negotiation by confrontation — which has marked recent constitutional and energy discussions.

We believe that the best way of starting such a process would be to agree here, today, to hold a special Conference of Finance Ministers on the Fiscal Arrangements no later than mid-February to begin discussing specific federal proposals for the future of these important programs.

That is not to say . . . Mr. Chairman . . . that we would not be prepared to begin to discuss specifics today, if you are able to give us some insight into the kind of proposals you will be putting forward.

I know that my colleagues from the other western provinces will want to add to what I have already said. I hope that you have found these initial comments helpful and constructive.

Communique No. 4 National and Regional Economic Matters

The Western Premiers considered measures to increase western economic co-operation as a means of counteracting the difficult state of the national economy and a number of counterproductive federal policies.

The National Economy

Concern over the state of the national economy was a major subject of discussion by the four Western Premiers. They noted that the federal government appeared to have assigned a secondary priority to economic recovery. The Premiers agreed that a significant number of the economic problems facing Canada could be attributed not only to international factors but also to the absence of adequate, consistent and regionally-sensitive federal economic policies and leadership. It had been agreed at earlier First Ministers' Conferences on the Economy in 1978 that economic policies should be developed jointly by the federal and provincial governments.

Despite acknowledged strengths and unparalleled potential for development, the Premiers noted that the national economy had experienced a difficult year in 1980, recording:

- the slowest rate of growth in close to two decades
- high unemployment, coupled with declining productivity
- continued high inflation, and
- federal policies that contributed to:
  - record high interest rates, and
  - a dramatic move away from energy self sufficiency.

Interest Rates

High and volatile interest rates continue to cause severe hardship for many Canadians and represent a serious ongoing economic problem for the country. The Premiers are deeply concerned about the unacceptable and unfair impact of these high rates, especially on farmers, small business operators, homeowners and the development potential of the West.

Acknowledging the federal government's responsibility for monetary and interest rate policy, the Western Premiers regretted there had been little progress in meeting the concerns about those policies they had expressed at their meeting in Lethbridge in April 1980. At that time, the Premiers noted that the interest rate problem facing Canada was one symptom of a range of major underlying structural problems, which require immediate action, including the balance of payments deficit.

Energy

The negligible growth experienced by the country as a whole in 1980 would have been considerably worse were it not for the positive contribution of major western resource projects, both directly and through the demand for the goods and services of central Canada. The resource industries of western Canada continue to provide the most important impetus for economic growth in Canada.

The Western Premiers are therefore very disturbed that, rather than building on this strength, the federal government chose to introduce a National Energy Program which has had a negative economic impact not only on the energy producing provinces of the West but also throughout the rest of the country.

They saw the National Energy Program as an urgent economic problem. Canada has the opportunity to be self-sufficient in energy. The N.E.P. as now structured will result in that opportunity being squandered; it is not in the interests of Canadians, regardless of where they may live.

The Western Premiers are gravely concerned with the complete disregard for provincial ownership rights on natural resources that is reflected in the National Energy Program, a disregard which seriously undermines a fundamental principle of Confederation. The unilateral imposition by the Federal Government of policies with profound and disastrous implications for the western provinces marks a departure from the traditional negotiated arrangement that has been a long-standing characteristic of the Canadian federal system.

The Western Premiers are confident that given the proper economic and policy framework, the development of energy resources can provide a basis for sustained economic growth in the decade ahead. The Premiers agreed, however, that unless the National Energy Program (NEP) announced by the federal government on October 28, 1980 is significantly changed, this promising potential will not be realized and Canada's opportunity for energy self sufficiency will be lost.

The Premiers agreed further to encourage the inter-change of information among Western Provinces in the area of energy conservation including the development of joint programs, where appropriate. The Premiers also decided to pursue the considerable potential that exists for Western Provinces, working in various combinations, to examine jointly energy-related projects in various fields including petrochemicals and heavy oil upgrading.

Agriculture

Agriculture continues to be a vitally important and expanding sector of the western and Canadian economy. Improved co-operative national stabilization programs would assist in developing Canada's agricultural potential.

Premiers agreed to direct their Ministers of Agriculture to work toward harmonization and standardization of agricultural assistance programs recognizing the role of the marketplace in establishing basic levels of returns to producers.

The Premiers also noted the problems which had occurred in 1980 as a result of the federal government's failure to co-operate with the provinces in drought assistance measures. They further requested their Ministers of Agriculture to continue to press their federal counterpart for early and better co-operation, and for a longer-term agreement on federal cost-sharing assistance, should drought conditions persist.

Manpower

Western Premiers agreed to establish more formal co-operative and consultative mechanisms to assist them in addressing common labour market issues and concerns in Western Canada.

The economic growth of Western Canada must not be limited by critical shortages of skilled manpower. The Western Premiers cautioned that current federal energy proposals could seriously affect the pace of western energy development and as a result the need for skilled manpower. The Western Premiers expressed concerns about federal policies in the manpower area including lack of clarification and respect for federal and provincial roles and responsibilities, the proliferation of new federal programs and policy, often announced unilaterally and without provincial consultation and federal funding for training which has failed to keep pace with identified needs.

Western Regional Economic Co-operation

The Western Premiers also agreed to pursue a number of promising new avenues for extending western provincial co-operation in economic policy development and co-ordination.

This will include a major joint effort under the direction of Western Economic Development Ministers, to ensure that the West realizes the maximum possible long-term economic and industrial benefits from the major capital projects which are underway or being planned in the region. The intent is to guarantee maximum Canadian content; this, in turn, will mean major economic benefits for all regions of Canada.

Communique No. 5 Western Power Grid

Premiers Lyon, Blakeney and Lougheed noted that since the agreement at their 1978 Conference to undertake a conceptual study of a Western Power Grid, significant progress had been made. Detailed feasibility studies on the locations and construction of transmission facilities linking Manitoba, Saskatchewan and Alberta and on the sale and purchase of electricity between the three have been completed and are at the ministerial negotiation state.

The Premiers instructed their ministers to give the highest possible priority to complete the internal analysis and joint financial studies of the material now available on the Western Power Grid and to advise the Premiers at the earliest possible date of their recommendations.

A Western Power Grid would provide security of supply of electricity for the three provinces in addition to contributing to the goal of self-sufficiency by displacing the use of fossil fuels. The construction of a power grid would also demonstrate in very real and positive terms what can be achieved through western provincial co-operation.

Communique No. 6 Transportation and Grain Handling

The Western Premiers' meeting today in Thompson, Manitoba, stressed the need for immediate action to ensure adequate rail transportation capacity to meet the needs of Western Canada.

"A good transportation system is vital to Western Canadians," the Premiers said, "in mining, the grain industry, forestry, and other areas. If our goods cannot move to market, the economy of the region will stagnate. The problems in this area must be solved, and solved quickly."

Projections for bulk commodity exports within Western Canada indicate a 66 per cent increase in railway freight between 1978 and 1990. Coal is particularly important with an expected 125 per cent increase in this period followed by grain and other bulk commodities. This will mean an economic growth that provides new jobs and revenues that contribute significantly to Canada's balance of payments.

The railways claim they are approaching capacity on westbound movements of all commodities and state that they will be required to spend up to $14 billion in capital investment to provide adequate capacity.

The Premiers noted that the Western Transportation Advisory Council (WESTAC) is to conduct an in camera meeting of western producers of bulk commodities and the railway companies to assess and evaluate future traffic projections and railway capacity in May, 1981. There will be provincial ministerial representation at the meeting and in view of the importance of the issues, the Premiers have requested their ministers to prepare and present a special report on the Conference findings to the four Western Premiers.

The Premiers also called for maximum use of the Port of Churchill for the 1981 shipping season and beyond, and endorsed a meeting in June between governments and organizations involved to develop a co-operative program to achieve this objective. The Premiers recommended the Federal Government accept a minimum 3% quota of grain exports on Churchill, implement a CN/CP interchange agreement, upgrade the CN line to Churchill, extend the shipping season, and examine winter loading of the terminal to maximize throughput.

The Premiers noted that some progress that has been made toward developing Prince Rupert as a major west coast grain terminal. In addition, they pointed out the urgent need for the Federal Government to develop an adequate terminal at Prince Rupert for the vast western Canadian coal reserves. Concern was also expressed about the future capacity of the Great Lakes navigation system to move the export traffic to the east.

The Premiers expressed a need to participate in the planning and management of ports. They asked for meaningful consultation in the writing of new federal ports legislation so that provinces have more input in Western Canada's port planning and development. They agreed that increased local decision-making and fiscal autonomy must be granted to west coast port management. Timely development of new terminal facilities is essential to the marketing of Canada's export products.

The Premiers discussed the statutory grain rate issue. They noted that this area was one of federal jurisdiction and responsibility, and commented on the uncertainty and confusion within the Federal Government as to its position.

The Premiers agreed with the paramount importance of transportation safety but viewed with concern the particulars of the dangerous commodities recommendations fearing that the current proposals, if implemented without care, may place further limitations on the system and significantly reduce railway capacity.

On the federal program of branch line rehabilitation, the Premiers urged that funding be increased to account for inflation and the more extensive basic network.

The Premiers requested federal compensation to western governments for incremental road costs associated with branch line abandonment, and suggested that the concept of off-track elevators be tested in appropriate locations to promote increased grain production.

In summarizing their discussions, the Premiers again stressed the importance of transportation to the economic development and future prosperity of Western Canada and urged greater federal co-operation and initiative to resolve outstanding problems.

Communique No. 7 Regional Co-operation

The Premiers of the four western provinces today announced new initiatives to promote co-operation among the four western provinces. The Premiers, meeting in Thompson, Manitoba, reviewed a report which they commissioned on past, present and future areas for western provincial co-operation.

The Western Premiers' Task Force on Regional Co-operation, chaired by Saskatchewan's Intergovernmental Affairs Minister, Honourable Roy Romanow, reported that over 200 past and existing co-operative activities had been identified involving the western provinces. In addition, the Task Force identified numerous areas for further co-operation among the four western provinces.

The Western Premiers indicated that they will be investigating future co-operation activities in four areas:

1. Western Regional Development;
2. Environment;
3. Rationalization of Public Services; and
4. Western Heritage and Culture.

The Premiers noted that, in the context of co-operative federalism, it is important for provinces to co-operate with each other in areas of provincial jurisdiction.

It is anticipated that decisions on the various proposals for future co-operative activities will be made at next year's Western Premiers' Conference, to be held in Saskatchewan.

APPENDIX III

OPENING REMARKS BY PREMIER PETER LOUGHEED
FIRST MINISTERS' CONFERENCE ON THE ECONOMY
FEBRUARY 2-4, 1982
OTTAWA

Thank you, Mr. Chairman:

I have found it very interesting listening to the stimulating and diverse views of our First Ministers. I recall, Mr. Chairman, a discussion we had a few years ago where I asked — do we always have to continue with this order of speaking? However, I guess there are some great advantages from your position, Sir, because then you end the morning with the gentle and kind views of the Premiers of Alberta and Newfoundland!

I would like to welcome Mr. Pawley and Mr. Lee to these First Ministers' meetings which are an important part of the Canadian political scene.

I hope we can get a consensus at this meeting, Mr. Chairman, that would be important. I was one of the Premiers who, in 1978, felt that we had two productive conferences on the economy. I thought they were productive in terms of the communique that indicated a common course of action and the spirit of co-operation. I must admit I have been disappointed — as Premier Bennett mentioned — at the lack of follow-up. The positions taken by some governments since those conferences have been quite different in terms of policy thrust from what I thought was part of our understanding of medium term objectives.

There is no doubt that Canadians are watching this Conference carefully. They are very concerned. We have heard that expressed by all governments. We are into a recession in this country. The interest rates are forecasted to go even higher than at present — that is a matter that I want to dwell on. Certainly the prospects for our country in 1982 are not promising. It is true the forecasts predict that Alberta will have the strongest provincial economy, but we are not immune from national policy and we certainly won't have the growth experienced in past years. Like the Premier of Ontario, I am also an optimist. I believe that there is enormous potential in this country that can be developed and encouraged if the eleven governments can work in consensus and if the eleven governments can reach an approach that is understood by the Canadian community and its various facets.

When we look at the question of the approach, I looked back — in preparing for this Conference — at the meeting of Premiers in Victoria this past summer (1981) and the ten points that we made. I would like to underline the question of exports in the Premiers' recovery plan. I believe that is crucial to a perception of this country by the world as a trading nation. It would be effective in moving forward with our great potential on exports in a number of different areas. We are very familiar with this area in western Canada and it is one that is particularly important to Alberta and British Columbia and I believe to all Canadians. The single most significant move that can be made, in terms of improving the value of our exports, has to do with the surplus of natural gas. In one move we could create a considerable encouragement to investors all over the world that look at the Canadian economy and its future. We have adequate supply to provide for Canadian requirements. We will be delighted when the government of Nova Scotia, with the federal government, brings on stream natural gas from off-shore Nova Scotia, which will further benefit our important energy needs. We are in a very special position in Canada today with that advantage.

We noted during the discussions in Victoria, that it was essential that we have an investment stimulated recovery and that we improve investor confidence. This is one of the two main themes that the government of Alberta presents to this meeting, the question of investor confidence together with the matter of interest rates.

We discussed the fact that it is absolutely essential that the eleven governments work together. I was pleased, Mr. Prime Minister, with the tone of your report. I was somewhat disturbed with previous statements by some of your Ministers that implied the federal government could move unilaterally on some of these economic areas. I felt better today about your remarks, because they indicated to me that you realize that in a federal state we could cancel ourselves out in a number of areas if we work at cross purposes. That is a reality that I hope is acceptable and in our discussions in the next few days we can emphasize that.

We have got a lot of strengths in this country. People around the world look at Canada and are amazed that we are into difficult economic problems when they see the resources, the educated people, the stability of our institutions and the spirit of entrepreneurship. That entrepreneurship is one of the most underrated aspects of Canada's resource strength, Canada's economic strength. We have nurtured and encouraged that in the province of Alberta and we have benefited by it. A great deal of the prosperity in our province comes from the fact that the risk-taker wants to come to our province, wants to participate in the growth. That benefit has spread throughout the whole country.

Risk-takers are coming to Alberta and we welcome them.

I believe we have another great asset which we should be careful to protect and not take for granted — that is the goodwill we have in the world today. I think we have to be careful about the way we are appearing recently in terms of some of our approaches. They are probably sound, relative to Canadian sovereignty and Canadian ownership, but the how of the foreign investment issue needs to be resolved. As we mentioned at the meeting in Victoria, the rate of Canadianization of our economy and the way in which it is done raises the very important fact that it not be done with the view that Canada can change the rules in the world game of trade on its own. I think it is very important that we recognize that fact. Our relationship with the United States is so important to us — we are not part of the European Economic Community — we are part of North America, clearly involved in the American economy.

We have got some weaknesses. I mentioned the balance of payments deficit. We have weakness in labour disputes as we are viewed by the world today. The recent trend in public sector settlements has raised the prospect that the public sector may push up wages in the private sector. That will cause a problem in overcoming some of the concerns that I want to refer to in a moment. If we have a push in terms of wage settlements over the course of this next year, when we see quite a different trend developing in the United States, it is going to affect our international competitiveness.

I think we need to look at our foreign trade strategy and recognize there has to be a new strategy with regard to the United States. This new strategy has to be developed in co-operation with the provinces and has to reflect — in my judgement — a recognition that it is important we work with the Congress and not the Administration. Also we should take advantage of — as Premier Bennett mentioned — the great potential on the whole Pacific rim.

I have these thoughts about a national economic recovery strategy: the first one has to do with a made-in-Canada interest rate policy. I started with this policy in a speech, Mr. Minister of Finance, in your home province on the last day of May last year (1981) and I have continued it now for a number of months. I do not believe we need to track the United States interest rates. I have been pleased to hear a number of Premiers respond positively to that. We are a different country. We have a different mix. We have a mix of small business people, farmers and homeowners. We have a different mix than the United States and therefore need an interest rate policy that fits our circumstances. I want to develop that in a few moments.

We have a choice — Mr. Premier of Saskatchewan — you and I agree it will not be without cost but let us at least have a debate as to what is the better way to go. Is it a higher interest rate? To me, interest rates are sky high and unacceptable to the farmers, small businessman and homeowners in particular and to many others who want to risk funds. That is unacceptable. Do we want that and a dollar at 83, 84 or 85¢, or do we have a choice? I believe we have a choice. We could have an interest rate policy that is different from the United States for Canada, provided we have got investor confidence. I want to come back to that. An interest rate policy that would have a somewhat lower Canadian dollar. We should be examining, in the next few days, the implications of that choice as well as hearing from the Governor of the Bank of Canada and many other people. I — for one — since late May in the City of Halifax have favoured a made-in-Canada interest rate policy.

The Americans are moving the interest rate for their own reasons. They are different from Canada. It has been suggested that if we do not follow them, a number of things will happen. First of all, it is suggested that we will have higher inflation because of greater cost of imports. Well, I am a believer first of all, that we have got some unused capacity in our own economy right now. I am a believer too, in what the Premier of Ontario has often argued, of buying Canadian and taking advantage of import replacement potential. I am a believer as well, with regard to interest rates, that it is going to be very important for people to perhaps change their purchases to Canadian products. I think that pressure will be good for Canadians and it is one that we should face up to.

I question too, the whole issue of increased inflation and wonder whether it has not been exaggerated a great deal. I think it has been. I believe if we had a lower Canadian dollar and higher imports some very surprising results might occur. Three or four of the European countries are in this process right now. They have established their interest rates in an independent way and it has been done intentionally. As a result of a lower Canadian dollar we would have an advantage for our exports in the world marketplace — that would be a plus for us.

Some people say, "once you start on that, won't there be a flow-out of investment funds?" That is the crucial question and links to the second point. I do not think we can have a lower interest rate policy unless it is linked with business investor confidence in our country. If we do not have the investor confidence, then a run could occur. However, with natural gas exports, an economic policy that makes sense, an encouragement to the private sector to build investor confidence, getting our act together in this country — then I believe that we can pull it together. A made-in-Canada interest rate policy wouldn't work without investor confidence in this country. I think the two have to go together.

That brings me then to the whole issue of the private sector emphasis. I feel very strongly about it. I believe — and have done so since I have been in public office — that the role of government is to create an atmosphere in terms of job creation, a climate for investment and for the risk-taker. I have been concerned about some actions taken. I am concerned with the federal budget in terms of timing and implication with regard to this matter. I am concerned, Mr. Prime Minister, with due respect that in your 15 page document there isn't one word of basic encouragement to the risk-taker in the private sector and the role that it should play. There is an important role for the public sector to play being when the private sector is either incapable or not prepared to take advantage of situations that are essential — such as transportation — we should then become involved in terms of public sector investment. It is one thing to have the investment in assets by the public sector — it is quite another to move this country into a situation where our gross national product becomes an ever-increasing share of the public sector and less and less of the private sector. We could get into a situation that would simply stifle Canadian economic growth and opportunity.

I believe that the matter of investor confidence isn't just actions. It is attitudes, statements, encouragement, fairness, consistency — it is a known economic strategy that is understood and accepted. I think, Mr. Prime Minister, that the test of the next number of months lies with your administration and with us all, to restore that investor confidence. It does not exist in Canada today. There are choices. Let us encourage that private sector investment in a significant way.

One thing that ties in with investor confidence and interest rates, is the level of government expenditure as distinguished from investment. We agreed in 1978 that public sector wage settlements should not lead the private sector. To a reasonable degree, for a couple of years, we didn't do too badly. I see real concerns developing now. We — in our province — have established guidelines for the public sector. We want to see the public sector not lead the private sector. Obviously some of you do not agree with that approach but I ask you to look back at what you said in 1978. If the public sector leads, we will — maybe we haven't yet, but I think we will — find an inflation factor that will start to move even more seriously than it has in the past and then the other things I have proposed would not work. It wouldn't matter what the investor confidence was. We would not be able to have a made-in-Canada interest rate policy. We will have to keep our own government house in order as far as I am concerned.

I want to mention just briefly the question of transportation. In Canada it is a key in every province — not just Alberta or the western provinces. The Premier of British Columbia mentioned that the federal government would be talking about rationing rail cars in 1985, when we have the markets for grain — something that really makes the farmer, the producer and the citizen of western Canada shudder. I believe the federal government recognizes that fact and will come to grips with it — we welcome working with them on that score.

In conclusion, I am optimistic — this country's resource potential, its overall potential, its talented people and its entrepreneurship are great assets. The goodwill that we have in the world is an asset. We have got to change our attitudes towards the private sector though. Our two priority objectives here are to try to convince you, Mr. Chairman, and the other governments that we need to restore investor confidence and establish a made-in-Canada interest rate policy. I believe if we take those steps, together with others suggested at this Conference, the citizens of this country, the risk-takers and the entrepreneurs across Canada, will have a renewed faith in this nation. They will say that we have got our act together in a governmental way and that we are moving in an agreed direction — moving in a way that will take advantage of our potential. We will have a better life for all of our citizens.

Thank you.

STATEMENT ON THE NATIONAL ECONOMY
MEETING OF WESTERN PROVINCIAL FINANCE MINISTERS AND TREASURERS
EDMONTON — JUNE 1, 1981

At a meeting in Edmonton today, the Ministers of Finance and Treasurers of the four western provinces, called for major changes in federal economic priorities.

Federal government priorities and policies — past and present — have damaged economic performance seriously in recent years and, increasingly, are jeopardizing future prospects. With Canada's abundant natural resources, the potential of the Canadian economy is unparalleled among industrialized nations, but key opportunities are being lost.

The Ministers stated that the federal government seems to be pursuing a deliberate course of dampening Canadian growth prospects, especially through its energy and high interest rate policies. They noted that these measures are having major negative effects not only in the west but throughout all regions of Canada.

The Ottawa energy proposals have choked the major resource-related exploration and development investment in the west which would have provided the main stimulus for national growth in the 1980's. At the same time, federal interest rate policies are causing major hardship for a growing number of Canadians — families trying to meet rising shelter costs; and farmers, fishermen, and other small business operators requiring substantial capital to earn a living.

The Ministers stated that it was neither possible nor desirable for provinces to attempt to counteract or offset the effects of these national policies. They noted that the federal government had not consulted the provinces in the design of these policies, despite their regional implications, and has not made any significant effort to alleviate their impact on individuals and regions.

The Ministers recalled that the Premiers of all ten provinces, at their last conference in Manitoba in August, 1980, called upon the federal government to resume federal-provincial consultation on fiscal and economic policies along the lines of the two successful First Ministers Conferences on the economy in 1978. They noted that the federal government appeared, at that time, to recognize the interdependence of the two orders of government and the important role of provinces in economic development. It is imperative that the federal and provincial governments work closely together in the development and implementation of key fiscal and economic initiatives.

The Ministers stressed that such cooperative federalism is required even more urgently now. They noted that the last federal-provincial meeting of Ministers of Finance and Treasurers had taken place in December, some six months ago, and that the federal Minister has failed to schedule a follow-up meeting. The Ministers emphasized their readiness to meet at the earliest opportunity with the federal Minister of Finance and their counterparts from the other provinces to review these federal policies and their impact on the country.

APPENDIX IV

CONSTITUTIONAL ACCORD
CANADIAN PATRIATION PLAN
APRIL 16, 1981

WHEREAS Canada is a mature and independent country with a federal system of government,

AND WHEREAS the Parliament of the United Kingdom has retained, at the request of the Parliament of Canada and with the approval of the Provinces, residual power to amend certain parts of the British North America Acts upon receiving a proper request from Canada,

AND WHEREAS it is fitting and proper for the Constitution of Canada to be amendable in all respects by action taken wholly within Canada,

AND WHEREAS the full exercise of the sovereignty of Canada requires a Canadian amending procedure in keeping with the federal nature of Canada,

NOW THEREFORE, the Governments subscribing to this Accord agree as follows:

1. To patriate the Constitution of Canada by taking the necessary steps through the Parliament of Canada and the Legislatures of the Provinces;
2. To accept, as part of patriation, the amending formula attached to this Accord as the formula for making all future amendments to the Constitution of Canada;
3. To embark upon an intensive three-year period of constitutional renewal based on the new amending formula and without delay to determine an agenda following acceptance of this Accord; and
4. To discontinue court proceedings now pending in Canada relative to the proposed Joint Address on the Constitution now before Parliament.

The Canadian Patriation Plan is conditional upon the Government of Canada withdrawing the proposed Joint Address on the Constitution now before Parliament and subscribing to this Accord.

The Provinces of New Brunswick and Ontario are invited to sign this Accord.

Dated at Ottawa this 16th day of April, 1981.

Signed on behalf of the under-mentioned Governments, to be followed by ratification by the respective Legislatures or National Assembly.

ALBERTA

Peter Lougheed, Premier

MANITOBA

Sterling R. Lyon, Premier

BRITISH COLUMBIA

William R. Bennett

William R. Bennett, Premier

NEWFOUNDLAND

Brian A. Peckford, Premier

NOVA SCOTIA

John M. Buchanan, Premier

QUÉBEC

René Lévesque

René Lévesque, Premier

PRINCE EDWARD ISLAND

J. Angus MacLean

J. Angus MacLean, Premier

SASKATCHEWAN

Allan Blakeney

Allan E. Blakeney, Premier

SIGNED ON BEHALF OF THE GOVERNMENTS OF:

NEW BRUNSWICK

Richard B. Hatfield, Premier

ONTARIO

William G. Davis, Premier

ACCEPTED ON BEHALF OF THE GOVERNMENT OF CANADA:

Pierre E. Trudeau, Prime Minister

STATEMENT BY HONOURABLE NEIL CRAWFORD, ATTORNEY GENERAL
AND
HONOURABLE DICK JOHNSTON,
MINISTER OF FEDERAL AND INTERGOVERNMENTAL AFFAIRS
SEPTEMBER 29, 1981

Yesterday the Supreme Court of Canada made an historic judgment, one that will have a profound and lasting effect on the future course of Canada's constitutional development. A year ago this coming Friday the Government of Canada announced its intention to act unilaterally to patriate and amend the Canadian Constitution, the **British North America Act.** For the past year the Government of Alberta has challenged the constitutionality of the federal government's actions.

Court action was initiated in the Courts of Manitoba, Quebec and Newfoundland. Last spring the Supreme Court of Canada heard appeals from the decisions of these three lower courts. Three questions were asked of the Supreme Court.

> The first question was whether or not the unilateral action of the federal government affected the existing rights and privileges of the provinces. The court answered in the affirmative 9-0.
>
> The second question was whether there exists a constitutional convention requiring the agreement of the provinces for constitutional amendments directly affecting their legislative responsibilities. The court answered this question in the affirmative 6-3.
>
> The third question asked whether the constitutional convention referred to in question 2 was constitutionally required. The court answered this question in two parts.
>
> In a 7-2 decision the court said there was no strict legal requirement that the provinces participate in constitutional amendments. But by a vote of 6-3 the Court said that constitutional convention required provincial participation and consent.

At one point the court said:— ". . . . while they are not laws, some conventions may be more important than some laws. Their importance depends on that of the value or principle which they are meant to safeguard. Also they form an integral part of the Constitution and of the constitutional system. They come within the meaning of the word "Constitution" in the preamble of the **British North America Act,** 1867:

> Whereas the Provinces of Canada, Nova Scotia and New Brunswick have expressed their desire to be federally united . . . with a Constitution similar in principle to that of the United Kingdom:

That is why it is perfectly appropriate to say that to violate a convention is to do something which is unconstitutional although it entails no direct legal consequence."

In conclusion the court said:— "We have reached the conclusion that the agreement of the provinces of Canada, no views being expressed as to its quantification, is constitutionally required for the passing of the "Proposed Resolution for a joint Address to Her Majesty respecting the Constitution of Canada" and that the passing of this Resolution without such agreement would be unconstitutional in the conventional sense."

The judgment justifies the position taken by the provinces opposed to the unilateral federal action. We always recognized the possibility that the court might rule that the federal government in a technical legal sense could submit a request to the United Kingdom Parliament. But on the more fundamental question of the need for provincial participation in constitutional amendment the court rules in favour of the provinces. They state: "It is this process itself which offends the federal principle."

Now that the legitimacy of the provincial position has been established it is appropriate to ask what happens next. The Alberta Legislature on November 24, 1980 — by a vote of 70 to 1 — supported a resumption of constitutional discussions. Last April the eight provinces opposed to unilateral federal action provided an alternative to the federal government and demonstrated their willingness to resume discussions. Last night the Prime Minister indicated that he might be willing to meet with the provinces. We welcome this step and hope that it will in fact materialize. Speaking on behalf of the eight provinces Premier Bennett of British Columbia indicated his willingness on all our parts to meet with the federal government. While it is too early to tell whether such discussions will in fact materialize, the Government of Alberta is prepared to participate in such discussions.

What happens if the federal government persists in its unilateral course of action? Firstly, we should state that we hope there will be a resumption of federal-provincial discussions. Secondly, the urgency and priority of constitutional debate must be considered alongside the compelling need to discuss the nation's economic problems. The latter problems cannot be pushed aside for even a moment.

Having stated our hope that negotiations will resume, we should also state that on the basis of the Supreme Court decision Alberta is fully prepared to take and present its position to the appropriate United Kingdom authorities. The Alberta submission to the United Kingdom House of Commons Select Committee on Foreign Affairs stated: "These important conventions have evolved because Canada is a federation. The **British North America Act** outlines the division of responsibilities between two distinct orders of government — federal and provincial. The conventions ensure that neither order of government can change unilaterally — and by implication have the United Kingdom Parliament change — the constitutional status of the other. If these conventions are ignored, the very nature of Canada's federal system of government would be destroyed."

To a great extent the constitution of the United Kingdom is founded on convention. Parliamentarians there fully understand, appreciate and respect the importance of constitutional conventions.

The past year has been injurious to the cause of national unity. We now have a second chance upon which to seek and build a consensus. The Alberta Government is willing to work hard towards achieving patriation and having a truly Canadian Constitution.

OPENING STATEMENT BY HONOURABLE PETER LOUGHEED
PREMIER OF ALBERTA
TO THE FIRST MINISTERS' CONFERENCE ON THE CONSTITUTION
NOVEMBER 2, 1981

Mr. Chairman, we are at a crossroads of Canadian Confederation. The federal government can press on and change our constitution without the agreement of the provinces with all the division and antagonism that will result over many years, or it can sincerely sit down and try and work out our differences without threats but in an atmosphere of negotiation. I share the hope with most Canadians that this issue can be resolved by negotiation in a manner consistent with our nation's traditions and principles. All Canadians share this hope for we have far more pressing issues facing us as governments than the Constitution.

The past year has been a critical and controversial one in federal-provincial relations. Two main subjects have been at the center of the controversy — Energy Resources and the Constitution.

On both matters the federal government acted unilaterally. In the case of Energy, despite federal unilateral action, a negotiated settlement was eventually achieved. It was not easy. It took time but it was accomplished. That agreement will benefit all Canadians. Differences of the past can now be put aside and governments are now working together to achieve the common goal of energy self-sufficiency.

I have asked myself: "Why can't we accomplish the same level of agreement on the Constitution?" The only answer I can come up with is that on the energy question the Federal Government ultimately realized that unilateral action would not work and that an agreement must be worked out with the producing provinces.

I refer to the Energy Negotiations because despite our initital strong differences an accord was eventually achieved. Albertans feel that a similar agreement would be possible in the area of the constitution, but it will not be achieved if the course of unilateral federal action is continued - arbitrary deadlines are imposed and an atmosphere of threat sustained.

Canadians have a number of issues confronting us: unnecessarily high interest rates and inflation, to mention two of the more urgent and pressing matters. Despite these recurring economic problems, the last three ministers' conferences (including this one) have been on the constitution — not the economy — even though the provinces have repeatedly called for a meeting with your government to co-operate in resolving these serious economic problems.

A little over one year ago we convened in this very room to discuss the reform of the Canadian Constitution. Our objective was to renew the Canadian Constitution to better serve the needs and aspirations of all Canadians. We attended the September 1980 Conference with the hope and expectation that all of us at this table could agree on substantive constitutional change. As we all know, that conference failed. Indeed, some would suggest that from the very beginning that conference was designed to fail.

At that time, Mr. Chairman, you will recall that the provinces called for a continuation of discussions. This was later confirmed, on our part, by The Resolution Of The Alberta Legislative Assembly passed on November 24, 1980. For almost a year, Alberta has been ready to resume discussion. It is not the provinces that have been the cause of the delay.

Despite the tensions that were evident at the September 1980 Conference, I thought that through an earnest continuation of discussions, we could have resolved the issues before us. That process of constitutional renewal was unfortunately abruptly ended by the federal government.

Despite the very real progress that had been made — for example all Provincial Governments had agreed in principle in September 1980 to support The Vancouver Consensus Amending Formula — The Federal Government unilaterally chose to embark on a course of action designed to amend the Constitution of our federation.

Mr. Chairman, I was deeply saddened that the federal government chose such a reckless course against the express opposition of the majority of the provinces and the majority of people of Canada. Never before in our country's history — and there are no exceptions — has any federal government embarked upon such a divisive course of action. Never before has a federal government attempted to amend the Constitution in areas directly affecting the constitutional rights and responsiblities of the provinces without their consent. Never before has a federal government established arbitrary deadlines for constitutional negotiation. The actions of the federal government violate the spirit and intent of Confederation; they are a negation of the partnership upon which this country was founded. **All** previous federal governments — Liberal or Conservative — have respected the federal nature of Canada and the conventions which govern its operation.

The Canadian Federal System is a reflection of the inherent diversity of this country. Canada simply cannot be governed under a unitary system where all the basic questions are left to a central government.

What did the Fathers Of Confederation seek in 1867? They desired and crafted a federal state which balanced national interests with provincial interests. They recognized that provincial governments, by being closer to the people, were essential in this vast land. The Federal Principle was enshrined in the extensive list of responsibilities enumerated in Sections 91 and 92 of **The British North America Act**. This Federal Principle has been reaffirmed time and time again by the courts, governments, scholars, and most importantly, by the people — until now.

What does the Federal Principle mean? It means that one order of government, federal or provincial, cannot unilaterally change the rights of the other order of government without that government's consent.

What is at stake is the very nature of our federal system and its future. We are at the crossroad of either continuing to support the Federal Principal or of ignoring it. Once the decision is made there will be no turning back.

One or two words on the Supreme Court Of Canada decision are necessary. In effect what the Supreme Court said was that the proposed course of action by the Federal Government was wrong ... wrong. The Supreme Court stated that:

> "The Federal Principle cannot be reconciled with a state of affairs where the modification of provincial legislative powers could be obtained by the unilateral action of the federal authorities. It would indeed offend the Federal Principle that a radical change to (the) constitution (be) taken at the request of a bare majority of the member of the Canadian House Of Commons and Senate."

Following the Supreme Court decision there was a lot of discussion as to the winners and losers. In my view, it is regrettable that the Canadian Constitution is being discussed in terms of winners and losers. Let there be no mistake, Mr. Chairman, the Supreme Court did not say that what the federal government is proposing is legal but rather that there is nothing in law to prevent the passage of the Federal Resolution, which is an entirely different matter.

The Supreme Court Concluded that:

> "The agreement of the Provinces of Canada, no views being expressed as to its quantification, is constitutionally required for the passing of the 'Proposed resolution for a joint address to Her Majesty respecting the Constitution of Canada' and that the passing of this resolution without such agreement would be unconstitutional in the conventional sense".

The Supreme Court determined — and by doing so supported the provincial contention — that not only is there an established constitutional convention requiring provincial agreement to amendments to **The British North America Act** affecting provincial rights, but also that it would be unconstitutional for Parliament to proceed unilaterally without the agreement of provincial governments.

Canada's Constitution or rule book is a mix of written and unwritten rules. The Supreme Court stated in unmistakable language that some of the unwritten rules are more important than the written ones, even if the Court cannot prevent their breach. One example — it is not a written but an unwritten rule that the Prime Minister must resign or call an election if he is defeated on a major matter in Parliament. To ignore a crucial unwritten rule - one that was expressly recognized by the Supreme Court - will have grave and, I hate to say it, but possibly even tragic consequences for our nation and its unity. It would not be a mere "Political Risk" but would be a flagrant disregard of our nation's history, traditions and its principles.

If the federal government succeeds in having its package passed in Britain — and that is by no means assured — the Supreme Court recognized that we would be a **different** federation — made different at the instance of a bare majority of the House Of Commons and the Senate. Many Canadians instinctively know that unilateral action is wrong. Alberta, as do all the Provinces, fully supports the objective of patriation of the Canadian Constitution — that is no issue at all.

But the resolution of Canada's constitutional questions must be accomplished through federal-provincial discussion and agreement and not by unilateral federal action, such fundamental changes should be in accordance with the spirit in which our present constitution was formed, with the participation of all governments. Canadians want a "Made In Canada" constitution — not a "Made In Britain" constitution.

Mr. Chairman, eight provinces with vastly different historical backgrounds, economic interest and different political persuasions were able to agree on an appropriate method to patriate and amend the Canadian Constitution. I refer, of course, to the April 16th Constitutional Accord which clearly and positively demonstrates that constitutional progress is possible when all parties approach the issue with good will and sincerity. Not through threats but through constructive and meaningful discussions.

What is the task before us? Reduced to its basic elements we should strive to achieve patriation with an amending formula acceptable to all governments. We are all agreed on the need for patriation and an amending formula. There are no preconditions. Therefore, patriation should be our immediate goal.

From the perspective of Alberta, any amending formula that is devised must incorporate the principle of provincial equality and reflect the need to protect existing provincial legislative powers, rights and privileges. I make no apology for adopting my position that strong provinces make for a stronger country. The amending formula already developed by the provinces in no way weakens the federal government, nor does it offend the Federal Principle.

Once agreement on an amending formula has been reached the Conference can then decide whether it wishes to add other matters or wait to complete the task of constitutional revision after patriation has been achieved.

Mr. Chairman, the end cannot justify the means when the method contradicts the very principle of federalism which has been repected throughout our nation's history. I have always thought that the purpose of these discussions was to unite Canadians. Rather than unite all Canadians behind a common goal, the constitutional debate has divided us as we have never been divided before. It is not a flag debate! To avoid further divisions, Alberta's overriding objective is to preserve and protect the Federal Principle which is the very foundation of our Constitution.

FEDERAL PROVINCIAL CONSTITUTIONAL ACCORD

November 5, 1981

In an effort to reach an acceptable consensus on the constitutional issue which meets the concerns of the federal government and a substantial number of provincial governments, the undersigned governments have agreed to the following:

(1) Patriation

(2) Amending Formula:

— Acceptance of the April Accord Amending Formula with the deletion of Section 3 which provides for fiscal compensation to a province which opts out of a constitutional amendment.

— The Delegation of Legislative Authority from the April Accord is deleted.

(3) Charter of Rights and Freedoms:

— The entrenchment of the full Charter of Rights and Freedoms now before Parliament with the following changes:

(a) With respect to Mobility Rights the inclusion of the right of a province to undertake affirmative action programs for socially and economically disadvantaged individuals as long as a province's employment rate was below the National average.

(b) A "notwithstanding" clause covering sections dealing with Fundamental Freedoms, Legal Rights and Equality Rights. Each "notwithstanding" provision would require reenactment not less frequently than once every five years.

(c) We have agreed that the provisions of Section 23 in respect of Minority Language Education Rights will apply to our provinces.

(4) The provisions of the Act now before Parliament relating to Equalization and Regional Disparities, and Non Renewable Natural Resources, Forestry Resources and Electrical Energy would be included.

(5) A constitutional conference as provided for in clause 36 of the Resolution, including in its agenda an item respecting constitutional matters that directly affect the Aboriginal peoples of Canada, including the identification and definition of the rights of those peoples to be included in the Constitution of Canada, shall be provided for in the Resolution. The Prime Minister of Canada shall invite representatives of the Aboriginal peoples of Canada to participate in the discussion of that item.

Dated at Ottawa this 5th day of November, 1981.

CANADA

Pierre Elliott Trudeau
Prime Minister of Canada/
Premier ministre du Canada

ONTARIO

William Davis
William G. Davis, Premier/
Premier ministre

NEW BRUNSWICK

Richard B Hatfield
Richard B. Hatfield, Premier/
Premier ministre

NOVA SCOTIA

John M. Buchanan, Premier/
Premier ministre

MANITOBA

Subject to approval of
Section 3(b) by the
Legislative Assembly
of Manitoba

for/ per
Sterling R. Lyon, Premier/
Premier ministre

BRITISH COLUMBIA

William R. Bennett

William R. Bennett, Premier/
Premier ministre

ALBERTA

Peter Lougheed, Premier/
Premier ministre

PRINCE EDWARD ISLAND

J. Angus MacLean, Premier/
Premier ministre

NEWFOUNDLAND

Brian A. Peckford, Premier/
Premier ministre

SASKATCHEWAN

Allan E. Blakeney, Premier/
Premier ministre

STATEMENT BY THE HONOURABLE DICK JOHNSTON MINISTER OF FEDERAL AND INTERGOVERNMENTAL AFFAIRS
NOVEMBER 6, 1981

A truly historic agreement was reached yesterday in Canada has nine provinces and the Federal Government agreed to guarantee Canada its own Constitution.

This agreement provides for the patriation of our Constitution with an amending formula and a Charter of Rights and Freedoms.

The Alberta position on all aspects of the constitutional debate was based around carefully considered and fully debated principles. Our position was outlined in our document "Harmony in Diversity: A New Federalism for Canada." Our adherence to these principles is shown in the constitutional accord signed yesterday.

It is significant to note the Alberta amending formula, is the amending formula now included in our Constitution. This Legislative Assembly debated the amending formula and the principles framed in that debate are now part of our basic law. All provinces have equal constitutional status and the existing rights, proprietary interest and jurisdiction of a province cannot be diminished without the consent of that province.

Because of our long-standing position to provide protection to the fundamental rights and freedoms of the people of Alberta, we agreed to an entrenched Charter of Rights and Freedoms. To ensure legislative supremacy, we argued for a "notwithstanding clause" which enables a legislative body to enact expressly that a particular provision of an Act will be valid, notwithstanding the fact it conflicts with a specific provision of the Charter of Rights and Freedoms. We agreed that a notwithstanding clause would have to be reviewed and renewed every five years by our legislature if it was to remain in force.

The decision of the Government of Quebec not to agree to the principles of the package is most unfortunate. They could not accept the amending formula, and certain parts of the Charter of Rights and Freedoms. Yet, with nine provinces and the Federal Government in agreement, a consensus is clearly formed and we can move with a Canadian Constitution.

We have resolved a century old Canadian problem here in Canada among the governments of the provinces and the Federal Government. The past four days were an indication of how governments should operate to resolve questions of national concern without threat of unilateral action or coercion.

I wanted also to express our appreciation to members of the Department of Federal and Intergovernmental Affairs who have been involved in this debate since the formation of the Department in 1973. That decision to form a new department then with broad policy responsibilities for activities involving other governments, must now be clearly reinforced.

This is truly a significant day for our country, our Province and for this Legislative Assembly. Canada will now have its own Constitution founded on principles understood by the people of Alberta and as reflected through the resolutions of this Assembly.

The Canadian federal system as reflected in this constitutional agreement, will be maintained.

CLOSING REMARKS BY PREMIER PETER LOUGHEED FIRST MINISTERS' CONFERENCE ON THE CONSTITUTION
NOVEMBER 2-5, 1981

HON. PETER LOUGHEED: Thank you, Mr. Prime Minister.

It is certainly an occasion that has very great significance because it really represents, in my judgement, what this country is about and its federal system.

As I said in my opening remarks, it had to be done by consensus and not by unilateral action. I have struggled through with you, Mr. Prime Minister, over the course of this summer, the very complex and difficult negotiations in the area of energy. In that case, as well as in this, there had to be adjustments and modifications made by all who were involved. That is the Canadian way we do things. It is not easy, but it bears a second example of where it can be done.

Albertans had objectives coming into this conference that were important objectives. We wanted patriation and a "made in Canada" constitution and, Mr. Prime Minister, I want to assure you that I didn't really want to go to London. In any event, I am glad I can go to London perhaps at another occasion for a different purpose.

The amending formula was a fundamental objective for our province. Back in 1976 when we were to a degree alone then, we took a position on behalf of the people of Alberta that in a confederation there should be no provinces that were second-class provinces and we shouldn't be in a position where rights could be taken away from our province, rights that we had and have today, without our concurrence. It was a fundamentally important point for us and we struggled through, I guess it is five years now, to come to this point. We are extremely pleased that this amending formula reflects that equality of provinces. We never sought a veto for Alberta and that is what brought us to the opting-out situation. We have never been anything other than a proponent of a Charter of Rights, but it had to be done, in our judgement, in a way that did not affect the supremacy of the elected people and they had to be in a position in a parliamentary system that they could respond in their legislatures to the decisions and interpretations of the Charter of Rights by the courts over the years ahead.

The very first bill our legislature introduced was an Alberta Bill of Rights, and I am proud of that. Certainly we and others made some movement in the Charter of Rights and that is part of being here and I am pleased to be a part of it...

...The other thing that was important in our objectives was that we respected the decision of the Supreme Court of Canada with regard to what is the constitutional convention of this country and that is what has happened here today.

Finally, and I know others disagree with me, but as a parliamentarian I believe very stongly that decisions should be made by political leadership, not made by way of referendum and because a referendum is a divisive approach. I appreciate that others disagree with me, but I feel very, very strongly about that. We had a group of eight that came about after the unilateral federal action. We worked together on an amending formula and I regret today with the others that Quebec is not part of this consensus.

Quebec passed and I understand it. They pressed that if they were going to exchange their veto for an opting-out position, they should have in exchange a position that gave them financial compensation for their opting-out. That was the position they took. It was not our original view. It wasn't our view in what was known as the Vancouver consensus, but it was pressed and pressed eloquently as a position to be taken by the province of Quebec.

I regret that they have taken the view that it was fundamental, if I understand it, to their acceptance of this accord. I join with Premier MacLean, Prime Minister, in what he said, and I think I saw you nod with regard to it, that what has to happen here is one of two things on this matter: either we find a situation of resolving the matter in terms of fairness, resolving it perhaps constitutionally, or perhaps in some other way. The question is: Is a province opting out being placed in a position of unfairness by doing so?

As you said, Mr. Prime Minister, in your opening remarks, and I understand the objection, that if a province opts out for reasons of jurisdiction – the result therefore being that they will be in a position of benefiting as well in a financial way – was, I think, at the heart of yours and other concerns on that amending formula. But Mr. MacLean's comment has to be, "Where do we go from here?" There have to be assurances given that there be that fairness, that if opting out creates a jeopardy or a situation that is just simply not fair, then we are assured political realities will respond to it.

Finally, I just want to congratulate not any one particular Premier, but all of the 10 Premiers and the 10 delegations. Everybody was involved in this process. There were no bystanders. Some took initiatives in a public way, some took initiatives in a private way, but everybody has been involved, and I think that it proves to me, and I think to Canadians, and I am sure to Albertans, that Canada works and Canada as a Confederation will continue to work and work well in the spirit we have here. Recognizing that some difficulties exist can be a good foundation to move forward in the recognition that within those other areas where we need the co-operation, economically in other areas, we can use this as a launching pad together with the spirit of the energy agreement to work together for the benefit of citizens wherever they live in this country.

APPENDIX V

MEMORANDUM OF AGREEMENT BETWEEN THE GOVERNMENT OF CANADA AND THE GOVERNMENT OF ALBERTA RELATING TO ENERGY PRICING AND TAXATION

SEPTEMBER 1, 1981

Energy Pricing and Taxation

The Government of Canada and the Government of Alberta are agreed on the following matters relating to the pricing and taxation of crude oil, natural gas and synthetic crude oil and natural gas liquids produced in Alberta.

1. Term of Agreement

The term of this Agreement commences on September 1, 1981 and expires on December 31, 1986, except as otherwise provided in this Agreement.

2. Prices for Conventional Old Oil

The Governments of Canada and Alberta are agreed that the overall average field price of conventional old oil will increase from the present price of $18.75 per barrel, with the first increase effective on October 1, 1981, the second on January 1, 1982 and thereafter every six months, in accordance with Tabel 1, but subject to the condition that the overall average field price of conventional old oil plus transportation costs to Montreal, adjusted for quality, will not exceed 75% of the actual international price of oil as defined in Schedule A.

TABLE 1

FIELD PRICES OF CONVENTIONAL OLD OIL
($/bbl)

	Increase	Level
Oct. 1, 1981	2.50	21.25
Jan. 1, 1982	2.25	23.50
July 1, 1982	2.25	25.75
Jan. 1, 1983	4.00	29.75
July 1, 1983	4.00	33.75
Jan. 1, 1984	4.00	37.75
July 1, 1984	4.00	41.75
Jan. 1, 1985	4.00	45.75
July 1, 1985	4.00	49.75
Jan. 1, 1986	4.00	53.75
July 1, 1986	4.00	57.75

For the purposes of this Agreement, "old oil" means oil recovered from a pool initially discovered prior to January 1, 1981 but does not include incremental oil referred to in section 3 of this Agreement. Schedule A provides for the manner of calculating the overall average field price of conventional old oil, transportation costs to Montreal, adjustments for quality, and procedures for ensuring that the 75% limitation will not be exceeded.

It is intended that the price for any quality of conventional old oil will not exceed the New Oil Reference Price for the same quality of oil.

3. New Oil Reference Price

Effective January 1, 1982, a New Oil Reference Price (NORP) will apply to new oil, that is to say, conventional new oil in Alberta, synthetic oil (including existing Suncor and Syncrude production) and oil from Canada Lands. There will be a special phase-in provision for Syncrude production.

"Conventional new oil" in Alberta means:

- oil from pools initially discovered after December 31, 1980;
- "incremental oil", as determined by the fixed ratio method, recovered from pools or portions of pools subject to enhanced recovery schemes (other than waterflood schemes) commencing operation after December 31, 1980; and
- crude bitumen obtained from experimental and non-integrated oil sands projects commencing operation after December 31, 1980.

The quality of reference oil for the NORP will be 38° API and 0.5% sulphur for oil other than synthetic oil, and 32° API and zero % sulphur for synthetic oil, delivered at Montreal. Schedule B provides for the calculation of quality adjustments to the reference oil and for the calculation of the NORP supplement.

(a) Base Prices

The NORP "base prices" are those shown in Tabel 2 under the heading "Delivered at Montreal".

TABLE 2

NEW OIL REFERENCE PRICE SCHEDULE
($/barrel)

	Delivered At Montreal	Estimated Wellhead
1982 January 1	47.30	45.92
July 1	50.60	49.22
1983 January 1	54.50	53.06
July 1	58.50	57.06
1984 January 1	61.70	60.18
July 1	65.00	63.48
1985 January 1	68.40	66.83
July 1	71.80	70.23
1986 January 1	75.70	74.08
July 1	79.10	77.48

Table 2 applies to the end of 1986. It is the intention of both governments that a NORP base price schedule for the period after 1986 will be established as part of any future agreement.

(b) Price Ceiling

The NORP (adjusted to the average quality of imported crude oil laid down at Montreal) will not exceed 100% of the actual international price of oil. (Schedule B, section 3, provides procedures for ensuring that the 100% limitation will not be exceeded.)

(c) Further Limitation on Prices

Prices for oil of particular qualities will not consistently exceed the prices of international oil of equivalent qualities, compared at Montreal. In the event that such a situation develops, a review will be made of the manner of calculating quality differentials in order to correct such a situation.

(d) Determination of the New Oil Reference Price in 1985 and 1986

Starting January 1, 1985, the NORP applicable to each half-year in 1985 and 1986 will be the greater of

- (i) the base price as shown in Table 2, and
- (ii) the phased-in moving average of actual international prices as set out in Schedule B, section 4,

but in no event will exceed the actual international price, adjusted for quality as per Schedule B.

(e) Administration

Schedule B, section 5, provides for the manner in which the payment of NORP supplements to producers will be administered. The "NORP supplement" is the difference between the conventional old oil price and the NORP.

(f) Prices for Syncrude Production

There will be special phase-in provisions for prices for Syncrude production, as follows:

— to and including June 30, 1982, the actual international price;

— July 1, 1982 to and including June 30, 1984, the greatest of

- (i) the New Oil Reference Price;
- (ii) the phased-in Syncrude moving average of actual international oil prices as set out in Schedule B, section 6, and
- (iii) the average price actually received for June, 1982 Syncrude production,

but in no event exceeding the actual international price adjusted for quality as per Schedule B.

— July 1, 1984 to and including December 31, 1986, the greater of

- (i) the New Oil Reference Price, and
- (ii) the two-year moving average (as set out in Schedule B, section 4(a)) of the actual international price, adjusted for quality as per Schedule B,

but in no event exceeding the actual international price, adjusted for quality as per Schedule B.

Natural Gas Prices

(a) Prices

During the term of this Agreement, natural gas destined for domestic markets east of Alberta shall be priced at the Alberta border. The Alberta border price in effect on September 1, 1981 shall be increased by 25 cents per Mcf commencing February 1, 1982 and thereafter shall be increased by 25 cents per Mcf every six months. The price will be converted to cents per gigajoule in the traditional manner determined by the National Energy Board.

(b) The "Flowback" System

Both governments agree in principle to the continued use of the system of revenue "flowback" resulting from sales of gas in the United States.

(c) **Market Development Incentive Payments**

The Government of Alberta will make Market Development Incentive Payments to the Government of Canada, as described in Schedule C, to facilitate the expansion of gas markets in provinces east of Alberta. It is the intention of both Governments to continue Market Development Incentive Payments as part of any future agreement.

(d) **Export Approvals**

The Government of Canada intends, in the exercise of its authority over natural gas exports, and consistent with the provisions of the National Energy Board Act, to accord fair and equitable treatment to producers in the provinces and the Canada Lands seeking approval of additional exports.

Subject to considerations of overriding national interest, if the National Energy Board determines that there is an exportable surplus, it is the intention of the Government of Canada to authorize additional exports.

5. Natural Gas Liquids

The Government of Canada and the Government of Alberta agree that increased domestic use of natural gas liquids could make an important contribution to attainment of Canada's objective of reduced oil imports. The two Governments agree to commence early discussion of ways of increasing the share of Canadian production used in the domestic market.

6. Petroleum Compensation Charge

The Government of Canada may levy the Petroleum Compensation Charge (PCC) and specify its rate.

Subject to the fiscal undertakings contained in this Agreement, it is the intention of the Government of Canada to set the level of the PCC so as to leave no revenue in excess of the amount required to finance oil import compensation and oil qualifying for the New Oil Reference Price, over the period 1981-1986.

7. Natural Gas and Gas Liquids Tax

The Government of Canada will levy the Natural Gas and Gas Liquids Tax (NGGLT) on domestic natural gas and natural gas liquids - ethane, propane and butane.

The Government of Canada agrees to reduce the NGGLT to a zero rate on exports of natural gas originating in an agreeing province. This decision is without prejudice to the Government of Canada's position that it has the right to levy such a tax. The zero rate would remain in effect for the period of the agreement. In the case of exports of Alberta natural gas, the zero rate would commence on October 1, 1981.

The tax on exports of propane and butane will remain and will be set equal to the rate on those products sold in the domestic market. There will be a refund of the NGGLT for all ethane produced in Alberta exported between September 30, 1981 up to and including the last day of the Agreement.

It is the intention of the Government of Canada to establish the level of the NGGLT on domestic sales so that, taking into account a range of factors, including gas transportation costs, the parity relationship between the wholesale price of natural gas at the Toronto City Gate and the average price of crude oil at the Toronto Refinery Gate will be approximately 65%.

8. Petroleum and Gas Revenue Tax and Incremental Oil Revenue Tax

The Government of Canada may levy a Petroleum and Gas Revenue Tax (PGRT) and an Incremental Oil Revenue Tax (IORT).

Subject to the fiscal undertakings contained in this Agreement, it is the intention of the Government of Canada to set the rate of PGRT at 16% effective January 1, 1982. There will be a 25% resource allowance, as described in Schedule D.

The rate of PGRT on the Alsands and Cold Lake synthetic oil projects will be reduced from 16% to 10.67% until the particular project achieves payout.

Subject to the fiscal undertakings contained in this Agreement, it is the intention of the Government of Canada to introduce an Incremental Oil Revenue Tax effective January 1, 1982 at a rate of 50% on incremental old oil revenues after deduction for the related Crown royalties, as described in Schedule D.

Suncor will receive, effective January 1, 1982, the NORP price for all of its synthetic oil production. On its pre-expansion volumes, which will be deemed to be 75% of total production, the difference between NORP and the conventional oil price schedule in the National Energy Program will be treated as incremental revenue for purposes of the Incremental Oil Revenue Tax, and will be subject to this tax.

In order to ensure that the combined federal and provincial fiscal burdens do not result in the shutting in of production that would otherwise be economically viable, the two governments agree to discuss, with the governments of other producing provinces, the question of low productivity wells with a view to determining what, if any, special measures may be required.

9. Income Tax Changes

The Government of Canada will amend the resource allowance in the Income Tax Act, effective January 1, 1982. The resource allowance on production profits from the operation of an oil or gas well will be restructured to make it available to the total production profits before the deduction of royalties payable to others, unless such royalty income is itself liable for non-deductible provincial levies. Those with an interest in production whose tax liability is unaffected by the non-deductibility of Crown royalties or provincial mineral taxes, will no longer receive a resource allowance.

For purposes of the Income Tax Act, earned depletion in the Canada Lands will be phased out according to the following schedule: 33% in 1982, 20% in 1983, 10% in 1984 and zero thereafter. Earned depletion or an equivalent incentive will be retained for new synthetic oil projects and for prescribed enhanced oil recovery projects. Given the availability of the New Oil Reference Price and appropriate royalty regimes, such prescription will only be made in exceptional circumstances in which the incentive is necessary to ensure an adequate economic return.

The Income Tax Act will be altered to provide that income from a new synthetic oil project or a major expansion of an existing project, as approved, may not be sheltered by deductions stemming from expenditures which are not incurred in the construction, operation, or maintenance of the approved project.

Subject to the fiscal undertakings contained in this Agreement, it is not the intention of the Government of Canada to make other changes to the corporate income tax related specifically to the oil and gas producing industry. Nothing in this Agreement shall prevent the Government of Canada from making changes of general application not specifically related to the oil and gas producing industry.

10. Alberta Royalties and Freehold Mineral Tax

Subject to the fiscal undertakings contained in this Agreement, the Government of Alberta agrees to maintain the existing systems for the levying of royalties on Crown oil and gas and mineral tax on freehold oil and gas, and for delivery of exploration and development incentives pertaining to the recovery of these resources.

Specifically,

(a) The methods for calculating royalty rates on conventional oil production from Crown Lands shall remain as set out in existing legislation. In this regard, the Government of Alberta shall maintain the distinction between "old" and "new" oil for royalty purposes as defined by the existing legislation.

(b) The methods for calculating royalty rates on natural gas and pentanes plus, and the rates levied on propane, butanes and sulphur, shall remain as set out in existing legislation. The procedures for calculating the gathering and processing allowances shall be maintained and applied as at present.

(c) Benefits obtained under the exploratory drilling and geophysical incentive programs shall be maintained at not less than existing rates within the existing structures. These include the royalty-free periods currently applied to new discovery wells for crude oil and natural gas.

(d) Royalty reductions on approved enhanced recovery schemes will continue as provided under sections 4.1 and 4.2 of the Petroleum Royalty Regulations.

(e) Royalties or joint venture payments levied on synthetic oil production and other products from the Suncor and Syncrude projects will be calculated and collected as provided under existing regulations or as agreed with the project participants.

(f) The methods for calculating mineral tax to be paid on freehold petroleum and natural gas shall remain as set out in existing legislation.

During the term of this Agreement, the Government of Alberta agrees not to adjust or modify its current royalty and freehold tax system so that it will generate more revenue for the Government of Alberta than continuance of the system now in effect would yield.

The Government of Alberta, however, during the term of this Agreement may adjust tax rates on freehold oil and gas and royalty rates on Crown oil and gas so as to ensure an equitable distribution of the increased revenues provided for by this Agreement between freehold and Crown production.

The Government of Alberta may make changes to its corporate income tax relating to earned depletion consistent with those referred to in section 9 of this Agreement.

Subject to the fiscal undertakings contained in this Agreement, it is not the intention of the Government of Alberta to make other changes to the corporate income tax related specifically to the oil and gas producing industry. Nothing in this Agreement shall prevent the Government of Alberta from making changes of general application not specifically related to the oil and gas producing industry.

11. Alberta Royalties on Alsands and Cold Lake

The Government of Alberta will provide a royalty formula applicable to the Alsands and Cold Lake oil sands projects. The royalty formula will consist of two components:

- A gross production royalty, phased-in at a rate of 2% every 18 months, to a maximum level of 10% until payout of pre-production costs. "Payout" occurs when cumulative net operating profits minus gross royalty exceeds total pre-production costs.
- Following payout, a royalty to consist of 30% of net operating profits minus capital costs in the year or the 10% gross royalty, whichever is greater. "Net operating profits" is defined as gross revenues from the project minus approved operating costs.

The Government of Alberta and the Government of Canada believe that the combination of royalties and taxes described in this Agreement, coupled with the New Oil Reference Price for the products from the two projects, will generate adequate rates of return on investment for the large Canadian or foreign companies participating in the Alsands and Cold Lake projects. The Government of Alberta recognizes, however, that many small Canadian companies or parties, under certain tax situations, normally would not invest in these large high-risk projects.

To encourage additional Canadian participation in oil sands development, the Government of Alberta agrees to provide a grant that will not be taxed by either government to Canadian-owned and controlled companies or consortia commensurate with the size of their investment.

Individual "Canadianization grants":

- shall consist of an amount not exceeding 15% of the total capital costs invested by an approved Canadian company;

- shall be given to companies lacking sufficient taxable income for purposes of claiming normal corporate tax deductions;
- in the aggregate shall not exceed $600 million for the two projects (on the assumption that each project is constructed to achieve the production levels approved in permits issued by the Alberta Energy Resources Conservation Board).

The Government of Alberta shall administer the approval and application of the Canadianization grants according to guidelines to be developed.

12. Petroleum Incentives Program

The Petroleum Incentives Program (PIP) has been designed by the Government of Canada to have nation-wide effect. The Government of Canada will modify the program to permit agreements under which a province could undertake to administer and fund the portion of the program that relates to activities occurring within the province. The Government of Canada and the Government of Alberta will enter into an agreement as follows:

(a) The Government of Alberta will administer and pay the incentives under the program for activities within Alberta. There will be no upper limit on these expenditures, which will relate to eligible costs and expenses incurred between January 1, 1981 and December 31, 1986.

(b) The PIP will be amended by the Government of Canada to exclude expenditures on integrated oil sands projects from the definition of eligible expenditures under the Program.

Authority to be Exercised by the Government of Alberta

(c) The Government of Alberta may make and amend its own rules with respect to the administrative aspects of the Alberta portion of PIP, such as:

- time limits for applying
- frequency of application
- forecasts of eligible costs and expenses
- design and preparation of forms and other program documents
- enforcement rules and penalties
- requirements for the submission of information by applicants and the retention of documentation by applicants
- confidentiality of and access to information obtained under the Program.

(d) The Government of Alberta may determine its own administrative policies and practices, such as in the areas of the exercise of discretion under the Program, establishing audit and enforcement criteria, making advance rulings, and issuing interpretation bulletins.

Authority to be Exercised by the Government of Canada

(e) The Government of Canada may make and amend the rules which the Government of Alberta will administer in the following aspects of the Program:

- the PIP incentive rates schedule (see paragraph f)
- the Canadian Ownership Rate ("COR") and Canadian Control Status ("CCS") rules
- the definitions of costs and expenses that are eligible for incentives
- the definitions of entities that are eligible applicants under the program

(f) The Government of Canada will administer the COR and CCS rules.

(g) The Government of Canada may make and amend the Canadianization rule governing the farm-out deals between low and high-COR entities involving in excess of $100 million of incentives in a year where such farm-outs involve more than one jurisdiction. In such cases, the Government of Alberta will pay for the incentives on expenditures taking place in Alberta provided that the Government of Alberta is satisfied that such expenditures qualify for incentives.

Areas of Shared Authority

(h) Notwithstanding the fiscal undertakings in this Agreement (section 14), any change in PIP incentive rates as specified in the National Energy Program, and as modified in paragraph (b) above, for activities on provincial lands will require agreement between the Government of Alberta and the Government of Canada.

(i) Rules to prevent the indirect transfer of program benefits from high to low-COR entities with respect to Alberta activities ("leakage rules"), and any subsequent amendment of such rules, will require agreement between the Government of Alberta and the Government of Canada. The Government of Canada is prepared to participate in discussions with Alberta over possible modification of the leakage rules applying to activities within the provinces.

General Conditions

(j) The Governments of Canada and Alberta will cooperate in implementing the Petroleum Incentives Program in the province, with the objective of encouraging increased Canadian ownership and control of the oil and gas industry. To this end, and to facilitate effective program administration and evaluation, there will be close consultation on all aspects of the program or any amendment to the rules governing the program and a free flow of program information between the administering agencies of the Governments of Alberta and Canada.

13. Oil Sands Approval Process

The Government of Alberta will expeditiously provide required governmental approvals for the Alsands and Cold Lake projects. The Governments of Alberta and Canada will cooperate in a reveiw of non-price issues related to these projects. The Government of Canada will establish a "single window" as a focal point for Government of Canada interest in matters relating to new synthetic oil projects.

14. Fiscal Undertakings

The Government of Canada and the Government of Alberta do not intend to introduce any tax, royalty or levy specific to the oil and gas producing industry, other than those set out in this Agreement. The Government of Canada may alter the taxes or expenditures noted below but not in a manner which will significantly reduce the aggregate revenue flowing respectively either to the Government of Alberta or the oil and gas producing industry. The mechanisms are:

PGRT - see section 8
IORT - see section 8
PCC - see section 6
PIP - see section 12
Portion of Natural Gas and Gas Liquids Tax derived from exports of
natural gas Corporate Income Tax - see section 9

The Government of Alberta may alter the taxes, royalties and expenditures noted below but not in a manner which will significantly reduce the aggregate revenues flowing respectively either to the Government of Canada or the oil and gas producing industry. The mechanisms are:

Royalties and Freehold Taxes - see section 10
Royalty Relief Programs - see section 10
Corporate Income Taxes - see section 10
Canadianization Grants for Synthetic Oil - see section 11
PIP - see section 12

15. General Conditions

During the term of this Agreement, oil and natural gas production in Alberta will be at levels consistent with sound engineering practices.

16. Revenue Estimates

The two governments have estimated the revenues which are likely to accrue to each other and to the oil and gas producing industry over the period of this Agreement. (See Table 3.) Both governments recognize that these estimates are forecasts and actual revenues may vary.

Dated at Ottawa this 1st day of September, 1981.

The Government of Canada

Pierre Elliott Trudeau
Prime Minister of Canada

The Government of Alberta

Peter Lougheed
Premier of Alberta

TABLE 3

Revenue Sharing Estimates - 1981-86
(Billions of dollars)

Government of Canada	
Canadianization Levy	1.4
Natural Gas and Gas Liquids Tax	12.5
Oil Export Tax	0.2
Incremental Oil Revenue Tax	6.2
Net Petroleum and Gas Revenue Tax[2]	14.3
Corporate Income Tax	19.7
Surplus Petroleum Compensation Charge[1]	-
SUB-TOTAL	54.3
Government of Alberta	
Royalties and Freehold Tax	61.2
Alberta Incentive Programs[3]	(4.2)
Oil Export Tax	.2
Corporate Income Tax	3.9
Land Payments	8.1
Petroleum Incentive Payments	(4.3)
Canadianization Grants for Synthetic Oil	(0.6)
SUB-TOTAL	64.3
Industry	
Cash Flow	73.7
Operating Costs	23.7
Petroleum Incentive Payments	4.3
Land	(8.1)
Canadianization Grants for Synthetic Oil	0.6
SUB-TOTAL	94.2
TOTAL REVENUES	212.8

[1] Surplus Petroleum Compensation Charge is any revenue accruing to the Government of Canada in excess of the amount required to finance oil import compensation and oil qualifying for the New Oil Reference Price.

[2] Petroleum and Gas Revenue Tax less Government of Canada PIP payment.

[3] Includes Alberta drilling and geophysical incentives, new oil and gas royalty holidays and enhanced recovery royalty relief.

SCHEDULE A

Matters Pertaining to Prices for Conventional Old Oil

1. Actual International Price

For the purposes of this Agreement, the "actual international price" of oil is the average cost of imported crude oil laid down at Montreal as determined by the Petroleum Compensation Board.

2. Calculations and Adjustments

For the purposes of section 2 of this Agreement and this Schedule,

(a) the "overall average field price of conventional old oil" shall be calculated by including the average prices of conventional old oil and equivalent marketed by the Alberta Petroleum Marketing Commission;

(b) "transportation costs to Montreal" means the sum of

  i) the average cost of moving oil to the terminals of Interprovincial Pipeline as determined by the Alberta Petroleum Marketing Commission, and

  ii) the average cost of moving average quality oil (38° API and 0.5% sulphur) through the Interprovincial pipeline to Montreal as established by the National Energy Board;

(c) the overall average field price of conventional old oil shall be adjusted to the average quality of imported crude oil laid down at Montreal employing then current Alberta Petroleum Marketing Commission differentials for density and sulphur.

3. Verification of Prices

The Alberta Petroleum Marketing Commission will verify that average field prices for conventional old oil are in accordance with those specified in Table 1 in section 2 of this Agreement. This will be performed by determining the average field price each month for the most recent three-month period for which actual data are available and by comparing this with the relevant average field price for the same three-month period as specified in Table 1.

Where the three-month average (as adjusted where the calculated average overlaps a scheduled price increase) deviates from the average price specified in Table 1, the Alberta Petroleum Marketing Commission will adjust its prices so that prices in future months are in line with the Table.

4. Conventional Old Oil Price Differentials

(a) Alberta conventional old oil and equivalent will be priced on a block basis, as determined by the Alberta Petroleum Marketing Commission.

(b) Quality differentials applied by the Alberta Petroleum Marketing Commission will be increased to \$0.15/bbl per 1° API and \$0.10/bbl per 0.1% sulphur from their current levels of approximatley \$0.03/bbl per 1° API and \$0.02/bbl per 0.1% sulphur. The increase in quality adjustments will be phased in so that for every \$1.00/bbl increase in the average field price, the block quality adjustments for both density and sulphur will increase by \$0.02/bbl.

(c) At the refinery level, to the extent that larger differentials may be required, the Government of Canada may choose to employ a differentiated Petroleum Compensation Charge.

(d) The differentiated Petroleum Compensation Charge would be implemented in such a manner that there is no net revenue gain to the Government of Canada. There would be a gradual phase-in of the differentiated Petroleum Compensation Charge to prevent undue hardship to individual refiners. A final decision by the Government of Canada on the rate of phase-in will take place only after consultation with the provinces and the industry.

5. Price Ceiling

(a) Prior to implementation of each price increase specified in Table 1 in section 2 of this Agreement, the overall average field price of conventional old oil will be compared with the actual international price for the most recent same three consecutive months for which actual data are available.

(b) Using the above comparisons, a check will be made to determine if the next scheduled conventional old oil price increase can be implemented without exceeding the limit of 75% of the actual international price.

(c) If the 75% limit is not exceeded, the total scheduled price increase will be implemented on the scheduled date. If the 75% limit is exceeded, only that portion of the scheduled increase which can fit within the 75% limit will be implemented on the scheduled date. In the latter circumstance, where the full scheduled increase cannot be implemented on the scheduled date, a repeat of the above check of the 75% limit will be made each month thereafter to determine what portion, if any, of the left-over scheduled increase can then be implemented. This procedure of monthly checks will continue until

   i) all the left-over scheduled price increase for the period is implemented, or
   ii) the period expires.

(d) In the event that any of the above checks of the 75% limit reveal that the conventional old oil price has already exceeded the 75% limit, there will be no rollback or retroactive adjustment, but no further increases will be implemented until allowed by the check as described above.

SCHEDULE B

New Oil Reference Price

1. Adjustments for Quality Differentials

Prices will include from the outset appropriate quality differentials set bi-annually by the Government of Canada after reveiw of Canadian circumstances and after technical discussions with the Governments of the producing provinces.

Initially the NORP for any particular new oil will be determined by using quality differentials of 22¢ per 1° API and 16.5¢ per 0.1% sulphur when the price for the reference oil is $47.30 per barrel.

When the price for the reference oil is $47.30 per barrel, the NORP would be $49.00 per barrel for conventional new oil of 42° API and 0% sulphur and would be $37.30 per barrel for conventional new oil of 15° API and 3.5% sulphur.

The above differentials will be escalated in line with the increase in the NORP.

2. Calculation of NORP Supplement

The amount of NORP supplement will be determined for any particular new oil other than synthetic oil by calculating the difference between its NORP at the field and the Alberta Petroleum Marketing Commission's field price for conventional old oil of that quality.

The amount of the NORP supplement will be determined for any particular synthetic oil by calculating the difference between its NORP, netted back to the synthetic oil source, and the APMC posted price for conventional old oil of the same °API and percent sulphur, also netted back to the synthetic oil source.

3. Price Ceiling

(a) Prior to implementation of each price increase specified in Table 2 of section 3 of this Agreement, the NORP will be compared with the actual international price for the most recent same three consecutive months for which actual data are available.

(b) Using the above comparison, a check will be made to determine if the next scheduled NORP increase can be implemented without exceeding 100% of the actual international price.

(c) If the 100% limit is not exceeded, the total scheduled price increase will be implemented on the scheduled date. If the 100% limit is exceeded, only that portion of the scheduled increase which can fit within the 100% limit will be implemented on the scheduled date. In the latter circumstance, where the full scheduled increase cannot be implemented on the scheduled date, a repeat of the above check of the 100% limit will be made each month thereafter to determine what portion, if any, of the left-over scheduled increase can then be implemented. This procedure of monthly checks will continue until

i) all the left-over scheduled price increase for the period is implemented, or
ii) the period expires.

(d) In the event that any of the above checks of the 100% limit reveal that the NORP has already exceeded the 100% limit, there will be no roll-back or retroactive adjustment, but no further increases will be implemented until allowed by the check as described above.

4. Moving Average of Actual International Prices

The "Phased-in Moving Average of Actual International Prices" is to be calculated in two stages; namely

i) by calculating the "two-year moving average of actual international prices" in accordance with paragraph (a) below, and
ii) by calculating the phased-in moving average of actual international prices in accordance with paragraph (b) below.

(a) Calculation of Two-Year Moving Average of Actual International Prices

The two-year moving average of actual international prices shall be determined as follows:

i) It is calculated semi-annually, adjusted January 1 and July 1 of each year.
ii) It is based on arithmetic average of actual international prices in each of the previous four (4) semi-annual periods.
iii) The semi-annual actual international prices which enter the average are themselves arithmetic averages of the monthly actual international prices paid in their respective half-year periods.
iv) Because of lags in the finalization of data, the actual international price used for the first period preceding the calculation period shall be the average price for the first month in that preceding period.
v) The formula for the moving average price shall be:

$$P(t) = SUM \div 4$$

Where:

$SUM = P(t\text{-}1) + P(t\text{-}2) + P(t\text{-}3) + P(t\text{-}4)$
$P(t)$ = Price in the "t" period

(b) Calculation of the Phased-in Moving Average in 1985 and 1986

The phased-in moving average of actual international prices shall be calculated on the same general principles as the two-year moving average of actual international prices described in paragraph a above. The phased-in two-year moving average of actual international prices during 1985 and 1986 shall be calculated as described below:

Jan. – June, 1985	$P = (1/4) \times MA + (3/4) \times S$
July – Dec., 1985	$P = (2/4) \times MA + (2/4) \times S$
Jan. – June, 1986	$P = (3/4) \times MA + (1/4) \times S$
July – Dec., 1986	$P = MA$ (i.e., fully phased-in)

WHERE:

P = Phased-in moving average of actual international prices
MA = Two-year moving average of actual international prices
S = Base price for the current period according to Table 2 of section 3 of this Agreement

5. Administration

The NORP for synthetic oil will be administered by the Government of Canada as at present.

The Government of Canada will determine the administration of the NORP for conventional new oil production based on one of the two schemes set out below.

The price for new oil other than synthetic oil will be paid at the same time and in the same manner as the price for old oil. The principal goal is to maintain the current industry "pay day" and to have the money derived from the sale of new oil flow to the producers on that day.

Common to both schemes that follow is the need for the operator of a well or project to apply to the appropriate provincial agency for new oil status for a specific well or project. On approval, copies of certification would be forwarded to the relevant Government of Canada agency, the operator, and the provincial agency responsible for new oil pricing and payments.

The APMC would post prices at each delivery point for new oil and old oil prior to the beginning of the production month - with copies to the Government of Canada agencies concerned.

SCHEME I

- APMC would continue to sell all oil produced from Crown leases as at present.
- APMC would pay the new oil price to the operator of a Crown lease for all new oil produced and would sell it to a buyer at the old oil price. The APMC would claim the difference from the Government of Canada submitting an itemized account. The whole transaction can be completed on "pay day" if the Government of Canada pays the Commission prior to the opening of banking hours on "pay day". As with the present procedure, final reconciliation of volumes and amounts for a production month would occur three months after the end of the production month.
- Owners of freehold crude would sell their new oil to the APMC at the new oil price, which body would then sell at the old price and claim compensation.
- The APMC would prepare monthly estimates of new oil volumes and requisition adequate funds to cover the compensation payment.
- The APMC would provide the Government of Canada with a statement each month showing money received, interest earnings, if any, disbursements and closing balance. Disbursements would be itemized by name of operator, volumes and amount of money.
- The Government of Alberta will provide access to the accounts of the program for purposes of audit and review by the Government of Canada.

SCHEME II

- APMC would continue to sell all oil produced from Crown leases as at present but new oil would be sold at new oil prices.
- Freehold producers would sell all their new oil to the APMC at the new price which would in turn sell it to the first buyer at the new oil price.
- The first buyer of new oil would seek compensation from the Government of Canada.
- To simplify the administration of this proposal, the APMC would sell all the new oil in a pipeline system to the swing buyer of each oil stream.
- The Government of Alberta would provide the Government of Canada with a detailed account each month with respect to prices and volumes of oil purchased at NORP prices from operators of Crown leases and freehold producers and with respect to prices and volumes of oil sold to first users at NORP prices.

6. Prices for Syncrude Production

The phased-in Syncrude moving average of actual international prices for Syncrude production shall be calculated on the same general principles as the two-year moving average described in section

4 (a) of this Schedule. During the two-year phase-in period, however, a lesser number of periods will be used to determine the moving average, as follows:

July - Dec., 1982 – Based on prices in the first half of 1982
Jan. - June, 1983 – Based on prices in the first half of 1982 and the last half of 1982
July - Dec., 1983 – Based on prices in the first half of 1982 through the first half of 1983
Jan. - June, 1984 – Fully phased-in; based on prices in the first half of 1982 through the last half of 1983

SCHEDULE C

Statement of Principles Market Development Incentives Payment

1. The Government of Alberta will make Market Development Incentive Payments to the Government of Canada in respect of the period November 1, 1981 up to and including January 31, 1987 to encourage the expansion of gas markets in provinces east of Alberta. The Incentive Payment revenues received by the Government of Canada from the Government of Alberta will be used only for making payments in respect of:
    a) gas transmission utilities to assist in the extension of gas transmission systems into new domestic market areas east of Alberta; and
    b) gas distribution utilities to obtain new domestic markets east of Alberta.

2. The Government of Canada will determine the making of and the amounts of any payments under 1(a) and 1(b).

3. The Government of Canada will ensure that the Incentive Payments will be used for capital expansions of distribution systems and for sales promotion programs, and will not be used to effect general price cuts for natural gas.

4. The Government of Alberta will make Incentive Payments to the Government of Canada beginning January 31, 1982 and at the end of each quarter thereafter, of an amount equal to the product of:
    a) thirty percent of the Alberta Border Price which was in effect at the end of the quarter in respect of which the payment is made; and
    b) the quantity of "new gas" purchased in that quarter for domestic markets east of Alberta, as measured at the Alberta border.

5. "New gas" means the total volumes purchased and measured at the Alberta border for delivery to domestic markets in each quarter that are in excess of the "base quantity" established for the quarter in respect of which payment is being made.

    Any new use of gas after October 31, 1981 to displace non-oil sources of fuel to generate electricity or as a petrochemical or fertilizer feedstock, will not be eligible for an incentive payment and such gas volumes will be deducted from "new gas" sales.

6. The "base quantity" is initially defined as the volume of gas purchased at the Alberta border for domestic markets east of Alberta during each quarter of the gas year November 1, 1980 to October 31, 1981, which is defined as the base year.

    A new "base quantity" will be established for each quarter of each gas year subsequent to the base year to reflect conservation. The new base quantity will be 97-1/2% of the base quantity of the corresponding quarter of the previous gas year.

7. It is the intent of the Government of Canada and the Government of Alberta to continue Market Development Incentive Payments as part of any future agreements.

SCHEDULE D

1. Resource Allowance for the Petroleum and Gas Revenue Tax

All oil and gas production revenues subject to PGRT will be reduced by a new resource allowance. In aggregate the deduction will be 25% of production revenues but this amount will be distributed amongst taxpayers so that those with an interest in production who are denied the deduction for Crown royalties and provincial mineral taxes will receive the entire benefit. Those with an interest in production whose tax liability is unaffected by the non-deductibility of Crown royalties or provincial mineral taxes will not receive a resource allowance.

2. Incremental Oil Revenue Tax

The Incremental Oil Revenue Tax will be imposed at a rate of 50% of incremental old oil revenues after a deduction for related Crown royalties. Incremental revenue is the difference between the actual revenue received by a person with an interest in production and the revenue which would have been received under the NEP price schedule. The related Crown royalties will be calculated for each well by multiplying the average royalty rate for the well by the incremental revenue. The incremental revenue will be excluded from income for the purposes of income taxation. However, the PGRT will be applied to incremental revenues.

The treatment of different interests for the Incremental Oil Revenue Tax will generally parallel the corresponding rules under PGRT. The portion of any royalty payable out of incremental revenues will be deducted from the tax base of the payor and the tax will apply to the incremental royalty received by the payee.

APPENDIX VI

STATEMENT ON FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS MEETING OF WESTERN PROVINCIAL FINANCE MINISTERS AND TREASURERS:

EDMONTON — JUNE 1, 1981

The Ministers of Finance and Treasurers from the four western provinces met in Edmonton today to continue their review of major issues involved in renewing and improving the Federal-Provincial Fiscal Arrangements.

The Fiscal Arrangements cover block funding for health care and post-secondary education, unconditional federal equalization payments and the income tax collection agreements.

The Western Ministers stated their serious concern that the federal government is considering severe reductions in its payments to provinces under these arrangements. The federal Finance Minister has indicated that the federal government may reduce its contributions to health and post-secondary education by $1.5 billion over the next two years. The Ministers stressed that federal transfers have not increased in relation to the total federal budget in recent years. Even the federal government's own projections show that the current arrangements would not be a source of significant budgetary pressure on the federal government over the next few years. They emphasized that Ottawa should not seek to resolve its budgetary problems by transferring substantial expenditure obligations to provincial and local governments.

The current Fiscal Arrangements have enabled the provinces to provide a high standard of health care, post-secondary education and other programming. Cutbacks would result in a deterioration in the quality of these programs which have been developed over the past decades. The Ministers stressed that, in 1976, Prime Minister Trudeau made a clear commitment when he said, "the intention is to underline the relative permanence and stability of the arrangements."

The Ministers reaffirmed their support for the principles of equalization followed since 1957. They restated their view that, despite some problems, the current "representative tax system" of equalization is operating satisfactorily and requires only minor changes. In this connection, the Ministers indicated that suggestions concerning a provincially financed resource revenue equalization plan are ill-conceived and, further, represent an abrogation of the federal government's responsibility for equalization. They felt that basing such a plan exclusively on natural resources, while ignoring longstanding economic benefits enjoyed by central Canada, would be unfair to western Canada.

Ministers are concerned that the refusal by the federal Minister of Finance to put any specific proposals before the provinces until the Parliamentary Task Force on the Fiscal Arrangements submits its report has seriously reduced the time available for negotiations among governments. The last review of the Fiscal Arrangements, five years ago, was well underway by this time of year with specific federal proposals tabled in June, 1976 at a First Ministers Conference.

On behalf of his colleagues, the Honourable Hugh Curtis of British Columbia, will be contacting the federal Minister of Finance immediately to request him to convene a special federal-provincial Ministers' conference on the Fiscal Arrangements without further delay.

The Western Ministers will be discussing these important issues with their colleagues at a meeting of all provincial Finance Ministers and Treasurers scheduled in Victoria on June 25 and 26.

PROVINCIAL REPORT
ON THE
ESTABLISHED PROGRAMS
FINANCING ARRANGEMENT

Federal-Provincial Meeting of Finance Ministers and Provincial Treasurers

Toronto, Ontario
December 14 - 15, 1981

A. INTRODUCTION

The arrangements known as Established Programs Financing cover major federal and provincial funding for health care and higher education. These arrangements touch each Canadian, in some way, and make their lives fuller and more enjoyable.

Canadians participate in a health system which is generally acknowledged as being second to none. Also, Canadians have access to top quality higher education opportunities through universities and technical training schools. These services to Canadians are made possible by joint federal and provincial funding arrangements.

In October 1980, the federal government announced its intention to cut back sharply in the major transfer programs to the provinces. For over a year, the provinces were left to speculate on what might be the specifics of federal cutbacks.

In its November 12, 1981 budget, the federal government signaled a desire to alter fundamentally these arrangements for health care and higher education. Finance Minister MacEachen indicated that the federal government will chop almost $6 billion dollars from these vital arrangements. He also threatened future cutbacks and freezes on health and higher education transfers if provinces cannot accept as yet unspecified conditions and other arrangements to be negotiated next year.

During the Halifax meeting of Finance Ministers and Treasurers on November 23 and 24, 1982, the provinces encountered an inflexible federal attitude. The provinces merely learned that their losses would be even larger than stated in the federal budget because of an error of double counting by the federal government.

For over a decade, the federal government has been seeking to extricate itself from financial commitments and agreements, after previously having brought provinces into expensive public programs by using its superior fiscal resources.

Given the federal government's threats to one of the central building blocks of this country, the provinces feel compelled to inform the public so they can more readily take part in the dialogue. In order to set the record straight and remind the country of the developments that led to the current difficulties, the provincial Finance Ministers and Treasurers have prepared this report. In tracing briefly the history of our fiscal relations in the major areas of social policy, the report will illustrate how provinces have constantly experienced uncertainty about federal commitments and how the federal government has broken faith with the provinces.

This report draws attention to the conclusions and recommendations of the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements, the Report of the Hall Commission, and the August 1981 Victoria Communique of the Provincial Premiers. It reiterates the strong feeling among the provinces that it is in the national interest to continue the long-term compromise reached in 1977 and that, under the federal proposals, adverse consequences for the quality and availability of health care and post-secondary education would be inevitable.

B. THE 1977 AGREEMENT — A LONG-TERM COMMITMENT

1. The Evolution of Federal Financing for Health and Post-Secondary Education

Much of the history of Canadian fiscal federalism has been explained by the mismatch between federal and provincial expenditure responsibilities and revenue capacities. Under the B.N.A. Act, the responsibility for health, education and welfare resides with the provinces. Following World War II the federal government used its superior fiscal resources to initiate a number of major federal-provincial shared-cost programs in these areas. These new major programs were designed to ensure that minimum national standards, as defined by the federal government, would be achieved.

The first major shared-cost program in the social field was for Hospital Insurance. This program, introduced in 1958, provided for an average 50% federal sharing in the provinces' costs of approved hospital services. From the provincial point of view, the most serious deficiency with the Hospital Insurance program was the federal failure to extend the definition of shareable costs in line with the evolution of provincial health care delivery systems. For example, certain low-cost alternatives to hospitalization such as nursing homes and home care were not eligible for cost-sharing. This meant that provincial spending was biased toward the federally-assisted but more expensive forms of health care, a fact that tended to raise overall costs and impede the rationalization of delivery systems.

In the late 1960's, the Medicare program was introduced. Provinces were reimbursed on the basis of 50% of the national average per capita costs, and were required to establish programs that fulfilled the national standards of comprehensive coverage, universality, portability, accessibility, and public administration.

A third major shared-cost program involved federal grants to post-secondary education. In 1967, the federal government offered to pay provinces the greater of either 50% of institutional operating costs or $15 per capita (escalated annually). The federal government was careful to acknowledge the exclusive provincial responsibility for higher education. As Prime Minister Pearson stated in his October 24, 1966 statement to the provinces:

> "The arrangements proposed . . . are designed to take particular account of provincial financial needs for post-secondary education, but in a manner that manifestly exerts no influence on the structure and content of provincial programs for higher education . . . ."

By the late 1960's, however, the federal government had become concerned about the extent of its financial contribution due to the open-ended nature of the shared-cost programs. A new federal philosophy emerged, namely, that the growth of federal contributions should be linked to the growth of the national economy. To solve its short-run expenditure problems and to press this new view on the provinces, the federal government resorted to arbitrary and unilateral ceilings on the growth of its contributions. The first of the shared-cost programs to be capped by the federal government was post-secondary education in 1972. Then, in 1975, the federal government placed a ceiling on its Medicare contributions and gave notice of its intent to terminate the Hospital Insurance agreements in 1980, the earliest date possible.

The provinces themselves were not satisfied with the shared-cost programs mainly because of uncertainty over the federal government's commitment and rigid program guidelines which distorted provincial priorities and decreased program efficiency.

2. The Principles of EPF

Reacting to the concerns about the capping of the shared-cost programs, the federal government put forward new proposals for health and post-secondary education. The principles that the federal government believed should govern the new arrangements were set forth by Prime Minister Trudeau at the Conference of First Ministers in June of 1976:

- the federal government should continue to pay a substantial share of program costs;
- federal payments should be calculated independently of provincial program expenditures;

— there should be greater equality in per capita terms in the federal contributions to the provinces;
— the arrangements for the mature programs should be placed on a more permanent footing; and
— there should be provision for continuing federal participation in the development of policies of "national significance" in health and post-secondary education.

The second principle implied a movement from traditional dollar for dollar cost-sharing to block-funding where there was no matching requirement. The objective was to bring increased flexibility to provincial budget planning and allow greater scope for provinces to introduce cost-saving measures. The federal government fully recognized this aspect of the arrangements. As stated by Prime Minister Trudeau in 1976:

> "(The proposal) . . . suits the current and future imperative namely fiscal restraint, in that Provinces will have a greater incentive to implement what are admittedly difficult measures designed to restrain spending in these fields to reasonable levels."

In proposing the principle that federal contributions would not be tied to provincial expenditures, the federal government acknowledged that the notion of federal and provincial shares of health and higher education expenditure were no longer relevant.

The fourth principle of predictability and certainty of federal transfers was to allow provinces the opportunity to undertake proper expenditure planning, secure in the knowledge that federal contributions would not be capped or withdrawn. At the June 1976 Conference, Prime Minister Trudeau stated explicitly the federal government's commitment to the principle of long-term certainty:

> "The fourth principle (of EPF) is that the arrangements be established on a more or less permanent footing, to reduce the uncertainty that has attended in the past the question of continued federal involvement and the dimensions of federal financial contributions . . . . (Notice of termination) would not be given lightly, because the intention is to underline the relative permanence and stability of the new arrangements."

For the most part, the provinces were encouraged by the principles. However, the actual offer made by the federal government was judged unacceptable. The provinces were asked to assume 100% of the financial risk in large program areas that were experiencing substantial cost pressures. Moreover, they were being asked to take this risk at the same time that the federal government was proposing to terminate the 1972 Revenue Guarantee. The discussions on the Revenue Guarantee were to become a central aspect of the 1976 negotiations on EPF.

3. The Revenue Guarantee

The Revenue Guarantee was introduced to encourage provinces to parallel the federal income tax reforms of 1972. It was a promise by the federal government that, over a five year period, the provinces would lose no revenues by adopting the federal income tax changes.

Payments under the program had originally been expected to be small. But by 1976 — despite an arbitrary formula change by the federal government — revenue guarantee payments were running at nearly $1 billion per year. Termination on schedule would have severely disrupted provincial finances and brought about an unintended and unjustified shift in federal-provincial revenue sharing. This was clearly recognized by the federal government in 1973 when the federal Minister of Finance, the Honourable John Turner stated:

> "There is a particularly difficult period of adjustment for all provinces when the guarantee comes to an end in 1976 . . . . In due course I would want to consult you with some concrete proposals."

However, no proposals were ever made. Instead, the federal government resolutely maintained that the Guarantee would expire at the end of 1976. Given the importance of the Revenue Guarantee to provincial finances, the Premiers rejected the federal position. The Premiers unanimously requested the transfer of four unconditional personal income tax points and associated equalization in exchange for termination of the Revenue Guarantee. This was estimated at the time to be about 80% of what the Guarantee was actually worth.

A key fact in the negotiations was that the federal government was legally tied into cost-sharing under its Hospital Insurance agreements with the provinces until mid 1980. Provinces would have been entitled to claim any difference between the open-ended cost sharing arrangement and the Hospital Insurance component of EPF for the first three years of this new program. It was evident that the federal government wanted out of this commitment.

The stage was therefore set for a major compromise. The federal government offered the provinces financial compensation (one equalized point of personal income tax, plus an equivalent amount of basic cash) for termination of the Revenue Guarantee. Significantly, the compensation for the Revenue Guarantee was included as an integral part of the basic structure of the proposed EPF arrangements. In exchange, the provinces agreed to waive their rights to open-ended cost-sharing under the former Hospital Insurance agreements. The final agreement incorporating compensation for the Revenue Guarantee within the EPF package thus involved an important trade-off, a **quid pro quo** between the two orders of government.

It should be remembered that the negotiations on EPF in 1976 were long and difficult. All governments had to give. But it showed that the Canadian way — federal-provincial negotiations in a spirit of compromise — can work.

C. MAJOR DEVELOPMENTS FROM 1977-1981

Given federal assurances during the 1976 negotiations that EPF was to be a long-term arrangement for the funding of health care and higher education, the provinces expected that the EPF arrangements would progress smoothly. However, this has not been the case. Four major developments occurred which served to question the federal government's real commitment to EPF.

1. The 1978 Federal Budget Cuts

In August 1978, the federal government announced major budget cuts and a reallocation of funds from existing programs to new priorities. Included in the federal plans were major unilateral cutbacks in federal-provincial transfers. At the November 1978 Finance Ministers' Meeting, the then federal Finance Minister suggested EPF as a target for reduction.

The federal proposal surprised and deeply concerned the provinces, given that the EPF arrangements were barely a year and a half old and supposedly based on stability and predictability. It indicated to the provinces that the federal government was anxious to back away from its financial commitment to EPF. The provinces, aware that reductions in federal funding would have lowered health and post-secondary education standards, rejected the federal proposal. As a result, the federal government cut back other transfer programs to the provinces.

2. Federal Attacks on Provincial Health Care

In early 1979, the Minister of National Health and Welfare began to issue a number of highly critical statements on provincial health care administration and delivery. The Minister went so far as to accuse the provincial governments of diverting Medicare funds to other programs. The comments suggested that the federal government was not committed to the block-funding nature of EPF and was seeking to impose stricter conditions in health care, an area of provincial jurisdiction.

Justice Hall, in his report "Canada's National-Provincial Health Program for the 1980's", looked into the federal accusation and concluded that the provinces were not diverting federal health dollars. He stated that "it is clear that all of the funds received by the Provinces under the cash grant are being allocated to health programs."

3. The October 1980 Federal Budget

In its budget of October 1980, the federal government indicated that it intended to achieve "significant savings" in social transfer payments to the provinces beginning in 1982-83. At the December 17, 1980 federal-provincial Finance Ministers' Meeting, the provinces asked the federal government to make known its proposals on EPF. They urged the federal government to proceed with negotiations at the earliest possible date so that a mutually acceptable agreement could be reached in the interests of all Canadians. However, Finance Minister MacEachen was not willing to discuss the federal government's proposals at that time. He finally agreed to hold a meeting in March 1981, to begin discussions on EPF. But that meeting was never called.

Despite repeated provincial calls for federal-provincial ministerial negotiations, the federal government delayed meeting with the provinces until November 23-24, 1981 in Halifax. This has indicated to the provinces that the federal government was not prepared to negotiate fiscal arrangements and might proceed unilaterally.

4. Parliamentary Task Force

The Parliamentary Task Force on Federal-Provincial Fiscal Arrangements was established in February 1981. Its mandate was to examine fiscal arrangements "within the context of the (federal) government's expenditure plan as set out in the October 28, 1980 budget." It was to report to Parliament by the end of June 1981.

A main thrust of Finance Minister MacEachen's presentation was that transfers to provinces would have to be significantly cut to meet the federal government's overall strategy of reducing its deficit. In making his case, he implied that federal transfers to the provinces were a major contributing factor to the deficit. Mr. MacEachen confirmed to the Task Force that the federal government was seeking net savings in social transfers of $1.5 billion in 1982-83 and 1983-84. However, he gave no indication of where those cuts would be made.

The Chairman of the Economic Council of Canada, in his presentation to the Task Force, took issue with many of the statements made by Finance Minister MacEachen. He thought that the energy agreements would significantly improve the federal budgetary position, Also, he concluded that:

> "For the future these (federal-provincial) transfers do not appear to be the primary contributors to persistent deficits or surpluses at either the federal or provincial levels."

On the issue of cutting federal transfers to the provinces, the Chairman of the Economic Council stated that:

> "One should seriously doubt the wisdom and fairness of 'solving the federal deficit problem' by merely transferring the problem to the provinces. This is not a solution at all."

In August 1981, the Task Force released its report "Fiscal Federalism in Canada". The Task Force flatly rejected that part of the terms of reference requiring its examination to take place within the context of the October 28, 1980 federal budget. In addressing Mr. MacEachen's concerns about the federal deficit, the Task Force stated that:

> "Federal grants to provinces and municipalities expressed as a percentage of total federal spending have been fairly constant since 1970. There is, therefore, no ground to suggest that federal transfers have been getting out of control. In fact, they grew at a slower rate in the 1970's than they did in the 1960's."

In other words, the Task Force absolutely rejected the federal government's argument that federal-provincial transfers were responsible for the federal deficit. In the Task Force's view, the federal deficit is the result of the general economic situation and federal tax and expenditure decisions.

The Task Force further concluded that:

> "There does not exist a long-term structural mismatch between the revenue capacities and expenditure responsibilities of the federal government. It cannot be claimed that the capacity of the federal government to raise revenues has reached a structural (as opposed to a political or discretionary) ceiling."

In short, the Task Force confirmed that the federal government has the capacity to reduce its deficit without cutting back its transfers to the provinces.

The Task Force concluded that there should be no cuts in federal transfers for health and post-secondary education. In particular, they stated that the fiscal transfers associated with the Revenue Guarantee must now be considered part of the EPF arrangements and allocated to health and/or post-secondary education. The Task Force cautioned that Canada's enviable health care system would be jeopardized by any reductions in the aggregate federal level of support.

Looking back at the negotiations in 1976, the federal government had made a promise to the provinces that EPF would be a long-term arrangement. But within two years of EPF coming into effect, the federal government had signaled a desire to back away (both financially and in principle) from the system it had originally formulated and jointly designed with the provinces. This was the situation facing the Premiers when they met in Victoria in August 1981.

D. THE PREMIERS' AUGUST 1981 REPORT

At their Conference in Victoria, in August 1981, the Premiers were very concerned about the federal threats to reduce funding for EPF and what this would mean for the future availability and quality of health care and post-secondary education programs. To further public understanding of EPF and its success in meeting the objectives set five years before, the Premiers issued a report.

Five key issues were discussed by the Premiers in their report:

1. The Federal Deficit

Evidence shows that transfers to the provinces have not caused the massive growth in the federal deficit. If the federal government reduces its transfers to provinces for health care and higher education, it would merely shift the burden to provincial taxpayers.

2. Funding Shares and Contributions

The arrangements for federal funding for health and post-secondary education programs have met the objective of stability and predictability. Indeed, federal projections made in 1976 for transfers under EPF are almost identical to the amounts actually transferred.

Joint provincial analysis shows that the federal share of program expenditures has consistently been less than 45 per cent, and that it has been declining since 1979-80. This refutes the federal government's claim that the burden of paying for medicare, hospitals, colleges, and universities has increasingly fallen on its shoulders.

3. Federal Program Conditions

The provinces expressed a willingness to discuss federal concerns over health conditions.

4. Visibility

The Premiers indicated that the provinces are prepared to discuss federal concerns about the visibility of its funding.

5. Federal Delays in Starting Negotiations

Since December 1980, provinces have been urging the federal government to begin serious negotiations. Due to federal delays, the provinces have been faced with uncertainty in planning their 1982-83 budgets.

Conclusion

The Premiers concluded their report on federal funding for health and post-secondary education programs by stating that "unilateral federal cutbacks would be unacceptable and unjustified", and they called for federal-provincial negotiations to commence immediately.

E. THE 1981 FEDERAL BUDGET PROPOSALS FOR EPF

In its November 12, 1981 budget, the federal government proposed a fundamental overhaul of the present financing arrangements for health and post-secondary education. Specifically, the federal government proposed that:

- the Revenue Guarantee component of the EPF be eliminated as of April 1, 1982;
- the federal contributions for health and post-secondary education programs be on an equal per capita basis for all provinces as of April 1, 1982;
- new federal-provincial arrangements for the financing of post-secondary education and human resources be devised by March 31, 1983; if negotiations on new arrangements are unsuccessful, the federal government may freeze its transfers;
- the existing national standards for health be clarified and an effective mechanism for their enforcement be developed by March 31, 1983.

Provincial Finance Ministers and Treasurers have looked at the federal proposals and share the following concerns:

1. Fundamental Revisions: A Breach of Faith

The provinces have indicated a willingness to examine the present system of financing health care and higher education with an eye to fine-tuning the system. The federal proposals, however, constitute a fundamental revision of the system and may be tantamount to termination.

Specifically, the federal government would eliminate entirely the Revenue Guarantee. As mentioned previously, the Guarantee is an integral aspect of EPF and was a **quid pro quo** for the provinces terminating the Hospital Insurance and Diagnostic Services Act.

Furthermore, the federal proposals would end the current block-funding nature of EPF which was designed to allow provinces the flexibility to reduce program costs. In its place would be separate funds for health care and higher education which would presumably be disbursed according to federal priorities.

The federal proposals constitute a major breach of faith in the federal government's 1976 commitment to the provinces that EPF would be a long-term agreement based on stability and predictability. In essence, the federal government is attempting to reduce its financial involvement and at the same time increase its control over provincial spending in health and higher education, areas of provincial jurisdiction. These actions are contrary to the principles outlined by the Prime Minister in 1976.

2. Transferring the Federal Deficit

The federal government's proposed cuts in funding for social programs are an outright attempt to transfer a portion of its deficit to the provinces and municipalities. As such, it represents a false saving because provincial and municipal taxpayers would bear the brunt of the federal actions. The federal government is merely attempting to improve its fiscal position by even further constraining the already tight fiscal position of the provinces.

As indicated by the Parliamentary Task Force and the Chairman of the Economic Council of Canada, federal-provincial transfers are not the cause of the federal deficit.

It should be noted that, on a national accounts basis, total federal government transfers to provinces are projected to rise by only 2.4 per cent in 1982-83, while federal government expenditures in total will rise by 13.5 per cent. This proves that provinces are being called upon to bear an unfair share of federal restraint.

3. Financial Impact

The $5.7 billion in proposed federal cuts in cash transfers would severely affect the future ability of the provinces to meet public demands for essential services and programs in the higher education and health sectors. Currently, the majority of provinces are in a very tight fiscal position and do not have the fiscal flexibility to absorb a decrease in federal transfers. If the federal financing proposals become a reality, provinces will be forced to (1) raise provincial taxes; (2) reduce the present level of services; (3) incur higher deficits; or (4) a combination of these measures.

It should be remembered that the proposed reductions are contrary to the recommendations of the Parliamentary Task Force and the Hall Commission.

4. Misleading Federal Presentation and Data Errors

In its budget, the federal government tried to mask the real impact of the $5.7 billion cuts to EPF by presenting tables which suggest that the provinces will receive increased revenues from the budget's tax changes. Any additional tax revenue received by the provinces is from provincial own source revenue. It is collected from provincial taxpayers; it is not a federal transfer. Moreover, it is ironic that over the years when the federal government instituted tax changes which reduced provincial own source revenues, there were no thoughts of compensating the provinces with increased transfers.

Even if the principle behind this tactic were acceptable, the federal government made the suggested trade-off even more dubious by making a large error in its calculations. The federal government erred in calculating revenues that would accrue to the provinces as a result of the tax changes (by almost $650 million according to its own estimates). In other words, provinces will be in a worse position than predicted in the November budget. Moreover, the provinces continue to question the revised federal statistics given that they are based on economic assumptions in the budget which are highly optimistic.

5. Standards and Conditions

The federal budget referred to the federal government's intention to impose more specific and enforceable program conditions on EPF and related transfers. The provinces have indicated a willingness to discuss with the federal government a clarification of the national standards in the health area and the matter of federal visibility in post-secondary education. The onus is on the federal government to withdraw its financial threats and come forward with concrete proposals.

6. Split Negotiations and Federal Threats

The federal government is proposing that the negotiations be split along financing and programming lines. A deadline of March 31, 1982 has been set by the federal government for legislation on the financial aspects of EPF. It should be noted that, save for a three-year notice of termination clause in the EPF arrangements, there is no legislative deadline for financial changes. Without legislative action, the existing financial arrangements will carry forward indefinitely, in keeping with the intended long-term nature of EPF.

The deadline for legislation on program issues has been set by the federal government as March 31, 1983. The deadline is accompanied by a threat to freeze federal payments for higher education if federal-provincial agreement is not reached. The federal government's intention to establish new financing arrangements for post-secondary education and human resources development could, according to some, constitute termination of the current arrangements and require the federal government to give three years' notice.

In the period between the October 1980 and November 1981 federal budgets, the provinces had urged the federal government to start meaningful negotiations. But the federal government had resisted all provincial overtures. Now, at the eleventh hour, the federal government is attempting to split the negotiations according to arbitrary deadlines. No sensible negotiator, regardless of the subject matter, could agree to negotiate part of a package without at least knowing the contents of the other part.

F. PROVINCIAL REACTION

After reviewing the federal government's proposals, Provincial Finance Ministers and Treasurers have concluded that:

1. the federal government is attempting a fundamental overhaul of EPF which is a clear breach of trust and may constitute termination of the 1977 agreement;
2. the federal government is merely attempting to shift its deficit to provincial taxpayers; there is no net saving for Canadian taxpayers;
3. the federal government's proposed cuts will mean a reduction in the quality of services for health care and higher education or increased provincial taxes;
4. the federal government is attempting to disguise the severity of the impact on the provinces of the cuts to EPF; and
5. the federal government is imposing a process which includes arbitrary deadlines, split negotiations and threats of future cuts in federal financing.

For these reasons, the provinces call for a continuation of the existing arrangements so that negotiations can proceed without funding cuts having been made, without threats and with a complete negotiating package on the table.

Provincial Ministers of Finance and Treasurers also suggest that, in view of the potential fiscal repercussions, federal-provincial discussions on program standards and conditions be joint discussions involving Ministers of Finance as well as the appropriate program Ministers.

The provinces feel strongly that the federal government's continual breach of faith in the area of fiscal arrangements will have dangerous implications for federal-provincial trust and confidence. Furthermore, they wish to stress to the federal government that any unilateral cutbacks will seriously impact upon the quality and availability of health care and post-secondary education to the citizens of Canada.

APPENDIX VII

LIST OF FEDERAL-PROVINCIAL PROGRAMS AND AGREEMENTS IN EFFECT IN ALBERTA BY DEPARTMENT

MARCH 31, 1982

ADVANCED EDUCATION AND MANPOWER

Advanced Education

1. Canada Student Loans
2. Citizenship Instruction and Language Textbook Agreement
3. College St. Jean Agreement
4. Drumheller Correctional Institutional Education Program
5. Edmonton Institution Agreement
6. Federal-Provincial Program for Assistance to Minority Language Instruction
7. Instructor and Administrator Staff Secondment
8. Post-Secondary Education Financing Program
9. Universities Academic Pension Board Canada Agreement
10. Charles Camsell Hospital Nursing Assistant Agreement

Manpower

1. Adult Occupational Training Agreements/Canada Manpower Training Program
2. Canada Manpower Industrial Training Program

AGRICULTURE

1. All-Risk Crop Insurance Program
2. Canada-Alberta Agricultural Research Agreement
3. Canada-Alberta Subsidiary Agreement on Nutritive Processing Assistance
4. Comprehensive Egg Marketing Program
5. Comprehensive Turkey Marketing Program
6. Federal-Provincial Shared Cost 4-H Agreement
7. Milk Marketing Plan
8. Rabies Indemnification Program
9. Record of Performance Program for Swine
10. Program for the Artificial Insemination of Swine

ALBERTA DISASTER SERVICES COMMISSION

1. Emergency Health Services - Prepositioning of Emergency Medical Supplies
2. Emergency Preparedness Financial Assistance Program (FAP)
3. Radiac Instrument Maintenance Program

ALBERTA HOUSING CORPORATION

— See Housing and Public Works

ALBERTA RESEARCH COUNCIL

1. Agreement to Provide Space to the Western Regional Laboratory of the Canada Department of Energy, Mines and Resources

2. Alberta Institute of Pedology
3. Fuel, Lubricants and Oxygen Testing for the Department of National Defense
4. Technical Information Service/Industrial Engineering Service

ATTORNEY GENERAL

1. Compensation to Victims of Crime

CONSUMER AND CORPORATE AFFAIRS

CULTURE

1. National Museums Corporation Program
2. Canada/Alberta Translator Agreement
3. 1979 Agreement Respecting Lotteries
4. Multilingual Biblioservice Agreement

ECONOMIC DEVELOPMENT

1. Product Development Management Program

EDUCATION

1. Capital Grants to School Boards
2. Full-Time Monitor Program
3. Interchange on Canadian Studies Inc.
4. Interprovincial Second-Language Monitor Program
5. Monitor Program for Francophones
6. Program of Cooperation for Bilingualism in Education
7. Summer Language Bursary Program

ENERGY AND NATURAL RESOURCES

1. Alberta/Canada Energy Resources Research Fund
2. Canadian Energy Research Institute
3. Cold Lake Air Weapons Range Access Agreement
4. Energy Bus Program
5. Federal-Provincial Fire Cooperation Zone Agreement
6. Freshwater Fish Marketing Corporation
7. Indian Reserve Fire Control Agreements
8. Manyberries Range Experimental Station
9. Namao Airport Lease Arrangement
10. Natural Resources Transfer Agreement
11. Primrose Lake Air Weapons Range
12. Canada/Alberta Memorandum of Agreement Relating to Energy Pricing and Taxation
13. Canada/Alberta Agreement on Natural Gas Pricing and Market Development Assistance
14. Suffield Block Agreement
15. Wainwright Military Camp Agreement
16. Waterfowl Crop Damage Compensation Program
17. Waterfowl Crop Damage Prevention Program

ENERGY RESOURCES CONSERVATION BOARD

1. Arrangements on Drill Cuttings

ENVIRONMENT

1. Canada-Alberta Accord for the Protection and Enhancement of Environmental Quality
2. Canada-Alberta Agreement on Hydrometric Stations
3. Canada-Alberta Meteorological Programs and Stations Agreement
4. Community Services Program
5. Irrigation Rehabilitation Program
6. MacKenzie River Basin Committee
7. Peace-Athabasca Delta Implementation Agreement
8. Prairie Provinces Water Board Agreement

FEDERAL AND INTERGOVERNMENTAL AFFAIRS

1. General Development Agreement (DREE)
2. Alberta-Canada Funds Transfer Agreement
3. Memorandum of Agreement on the Transit Pipeline Treaty
4. Memorandum of Agreement on Administrative Matters for the Alaska Highway Gas Pipeline
5. Memorandum of Understanding on Environmental Surveillance for the Alaska Highway Gas Pipeline

GOVERNMENT SERVICES

1. Metric Conversion Information Centre Agreement
2. Visiting Journalists Program

HOSPITALS AND MEDICAL CARE

Health Care Insurance

1. Alberta Health Care Insurance Plan

Hospital Services

1. Alberta Hospitalization Benefits Plan
2. Hospital Supplementary Insurance Fund

HOUSING AND PUBLIC WORKS

1. Sales Tax Refund

Alberta Housing Corporation

1. Community Housing Program
2. Community Services Contribution Program
3. Municipal Non-Profit Housing Program
4. Rural and Native Housing Program
5. Rural Home Assistance Program
6. Senior Citizens Self-Contained Program

LABOUR

MUNICIPAL AFFAIRS

1. Canyon Creek Wharf Agreement
2. Enhanced Value Loan Agreements

3. Fort Chipewyan Water Pipeline Agreement
4. Hamlet of Suffield Water Agreement
5. Intergovernmental Committee on Urban and Regional Research (ICURR)

NORTHERN DEVELOPMENT

— See TOURISM AND SMALL BUSINESS

RECREATION AND PARKS

1. Operation Parkwatch

SOCIAL SERVICES AND COMMUNITY HEALTH

1. Canada Assistance Plan
2. Child Welfare Services to Treaty Indians
3. National Health Grants: Research Program
4. National Welfare Grants
5. Social Allowance to Treaty Indians
6. Vocational Rehabilitation of Disabled Persons Agreement
7. Social Services System Development
8. Family and Community Support Services (on Frog Lake and Saddle Lake Reserves)

SOLICITOR GENERAL

1. Accreditation and Funding of Community Residential Centres
2. Community Assessment and Parole Supervision
3. Exchange of Correctional Services Agreement
4. Gun Control Agreement
5. Native Courtworker Program
6. RCMP Provincial Policing Contract

TOURISM AND SMALL BUSINESS

Tourism (Travel Alberta)

1. Familiarization-Education Tours for the Travel Trade/Visit Canada Program for the Travel Press

Small Business

Northern Development

1. Canada-Alberta Subsidiary Agreement on Alberta North 1977-1982

TRANSPORTATION

1. River Crossing Structures in Indian Reserves
2. Urban Transportation Assistance Program
3. Canadian Wheat Board Agreement to Purchase 1000 Hopper Cars
4. Garder Creek Bridge Agreements
5. Grande Prairie Airport Agreement
6. Peace River Airport Agreement
7. Lethbridge Airport Agreement

TREASURY

1. Canada Pension Plan Investment Fund
2. Established Programs Financing
3. Federal-Provincial Cost-Sharing Agreement on Cooperative Annual Survey of Salaries, Wage Rates and Working Conditions
4. Fiscal Equalization Payments
5. Fiscal Stabilization Payments to Provinces
6. Provincial Personal Income Tax Revenue Guarantee Payments
7. Public Utility Corporations Income Tax Rebate
8. Statutory Subsidies
9. Tax Collection Agreement
10. Transfer Payments with Respect to Tax on 1971 Undistributed Income on Hand

UTILITIES AND TELEPHONES